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BEFORE THE ARIZONA CORPORATION COMMISSION**COMMISSIONERS**

Arizona Corporation Commission

DOCKETED

SEP 15 2014

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
TUSAYAN WATER DEVELOPMENT
ASSOCIATION, INC. FOR ESTABLISHMENT OF
RATES FOR WATER SERVICE.

DOCKET NO. W-02350A-10-0163

IN THE MATTER OF THE APPLICATION OF
ANASAZI WATER CO., LLC FOR
ADJUDICATION "NOT A PUBLIC SERVICE
CORPORATION."

DOCKET NO. W-20765A-10-0432

IN THE MATTER OF THE APPLICATION OF
HYDRO-RESOURCES, INC. FOR
ADJUDICATION "NOT A PUBLIC SERVICE
CORPORATION."

DOCKET NO. W-20770A-10-0473

IN THE MATTER OF THE APPLICATION OF
TUSAYAN WATER DEVELOPMENT
ASSOCIATION, INC. FOR CANCELLATION OF
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. W-02350A-13-0312

IN THE MATTER OF THE APPLICATION OF
HYDRO-RESOURCES, INC. FOR A
CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER SERVICE.

DOCKET NO. W-20770A-13-0313

DECISION NO. 74742**OPINION AND ORDER**

DATE OF HEARING:

June 4, 2014

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Sarah N. Harpring

APPEARANCES:

Mr. Ryan J. Lorenz, CLARK HILL, PLC, on behalf of
Tusayan Water Development Association, Inc.;

Mr. Paul L. Brinkmann, SHORALL MCGOLDRICK
BRINKMANN, on behalf of Anasazi Water Co., LLC;

Mr. Steven A. Hirsch and Mr. Rodney W. Ott, BRYAN
CAVE, LLP, on behalf of Hydro-Resources, Inc.;

Mr. William J. Sims III, SIMS MURRAY, LTD., on
behalf of the Town of Tusayan;

1 Mr. Timothy J. Sabo, ROSHKA, DEWULF &
2 PATTEN, PLC, on behalf of Squire Motor Inns,
Incorporated; and

3 Ms. Robin Mitchell and Mr. Wesley C. Van Cleve, Staff
4 Attorneys, Legal Division, on behalf of the Utilities
Division of the Arizona Corporation Commission.
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BY THE COMMISSION:

This case began with a rate application filed by Tusayan Water Development Association, Inc. ("TWDA"), the company that currently holds a Certificate of Convenience and Necessity ("CC&N") to provide water utility service in an area including the Town of Tusayan ("Town"), although TWDA owns no water utility infrastructure. Shortly thereafter, this matter expanded to include applications for adjudication "not a public service corporation" filed by the two companies whose facilities have been providing water to customers in the CC&N service area—Anasazi Water Co., LLC ("Anasazi") and Hydro-Resources, Inc. ("Hydro"). TWDA, as the CC&N holder, has been billing customers for the water received through Anasazi or Hydro infrastructure, with the rate charged to each customer based upon which company's facilities provide the water to the customer's location. After a lengthy negotiation process, numerous procedural conferences, and many filings, a Settlement Agreement was entered by the TWDA, Anasazi, Hydro, the Commission's Utilities Division ("Staff"), and two Intervenors.¹ Consistent with that Settlement Agreement, TWDA has filed an application for cancellation of its CC&N, and Hydro has filed an application for a CC&N. The dockets for all five of the applications at issue have been consolidated in this matter, and all five applications are addressed and resolved herein.

DISCUSSION**I. Background****A. The Dockets**

Docket No. W-02350A-10-0163 is the docket in which TWDA, on April 29, 2010, filed an application for a full permanent rate case and subsequently agreed to have its status as a public service corporation adjudicated ("TWDA Rate Docket"). In the cover letter for the application, TWDA revealed both that Staff had instructed TWDA to file the rate application and that TWDA owned no plant, purchased water from two separate water companies with separate distribution systems, and passed the cost of the water on to the customer with a small administrative fee per gallon.

¹ A third Intervenor declined to enter into the Settlement Agreement and later was permitted to withdraw from the case.

1 Docket No. W-20765A10-0432 is the docket in which Anasazi, on October 21, 2010, filed an
 2 application for adjudication “not a public service corporation” (“Anasazi Adjudication Docket”). In
 3 the cover letter for the application, Anasazi stated that the Commission’s Legal Division had sent a
 4 July 2010 letter instructing Anasazi either to apply for a CC&N or for adjudication “not a public
 5 service corporation.”

6 Docket No. W-20770A-10-0473 is the docket in which Hydro, on November 19, 2010, filed
 7 an application for adjudication “not a public service corporation” (“Hydro Adjudication Docket”). In
 8 the application, Hydro also stated that its application was being filed in response to a July 2010 letter
 9 from the Commission’s Legal Division.

10 Docket No. W-02350A-13-0312 is the docket in which TWDA, on September 12, 2013, filed
 11 an application for cancellation of its CC&N (“TWDA Cancellation Docket”).

12 Docket No. W-20770A-13-0313 is the docket in which Hydro, on September 12, 2013, filed
 13 an application for a CC&N to provide service to almost all of TWDA’s CC&N service area² (“Hydro
 14 CC&N Docket”).

15 B. The Service Area

16 The service area at issue is located in Coconino County and entirely within the municipal
 17 limits of the Town, which is just south of the Grand Canyon National Park’s south rim entrance. (*See*
 18 *Hydro-6* at 5; *Ex. S-1* at exec. summ.) The Town was incorporated in April 2010.³ Tusayan is a
 19 community of several hundred residents, most of whom reside either in dormitories provided by their
 20 employers or in mobile homes. (*TWDA App.*⁴) Tusayan is also home to five large hotels. (*Id.*)
 21 Tusayan is completely surrounded by the Kaibab National Forest, and there is very little private land
 22 in the area. (*Ex. TWDA-1* at 5; *Tr.* at 98.) Additionally, the area has had a flat growth rate for the
 23 past several years, which is expected to continue. (*Ex. S-3* at att. A at 5.)

26 ² There is a small portion of TWDA’s CC&N service area that is not included in Hydro’s requested CC&N service
 27 area, as discussed further below.

28 ³ Official notice is taken of this information obtained on the official website of the Town (<http://tusayan-az.gov/leadership/>).

⁴ Official notice is taken of the rate application filed by TWDA in the TWDA Rate Docket on June 4, 2010.

1 C. The Parties

2 1. TWDA

3 TWDA is a not-for-profit Arizona corporation formed in September 1978 for the purpose of
 4 obtaining a CC&N to enable TWDA to purchase water from the U.S. Department of the Interior's
 5 National Park Service ("National Park Service"). (Ex. TWDA-1⁵ at 5.) At the time, water delivery in
 6 the area was available only by tanker truck because there were no wells in the area, and development
 7 was increasing because of Tusayan's proximity to Grand Canyon National Park. (*Id.*) TWDA filed a
 8 CC&N application with the Commission in December 1978; received an Order Preliminary to
 9 issuance of a CC&N in Decision No. 49808 (March 28, 1979); and received a full CC&N in Decision
 10 No. 50492 (December 13, 1979). (Ex. TWDA-1 at ex. 1.) TWDA has never owned any water utility
 11 infrastructure, although it has been billing customers for water service pursuant to its CC&N
 12 authority for decades. (Ex. TWDA-1 at 6-7.) TWDA also has never had a rate tariff on file with the
 13 Commission. (Tr. at 103.) TWDA charges each customer for service by assessing a flat commodity
 14 rate for all usage, regardless of usage level, without any additional monthly charge, but with the rate
 15 based upon whether the customer's location is served by the Anasazi or Hydro water system. (*See*
 16 Tr. at 104.) TWDA also passes through to the customer any charge, such as a returned check charge,
 17 that is imposed on TWDA as a result of the customer. (Tr. at 104.) As of March 2011, TWDA
 18 reported that it had 36 total customers, nine of them receiving service through Anasazi's water
 19 system and 27 receiving service through Hydro's water system. (TWDA 1st DR at 1.⁶)

20 2. Anasazi

21 Anasazi is a member-managed Arizona limited liability company formed in 1996. (Anasazi
 22 App. at 1, ex. 2(B).⁷) Anasazi was formed by the heirs and assigns of R.P. Thurston, who built the
 23 Red Feather Lodge in Tusayan in the early 1960s. (Anasazi App. at 1.) The Anasazi water system
 24 was constructed to serve the Red Feather Lodge and was originally intended to be used only to serve
 25

26 ⁵ Although referred to during the hearing as Tusayan-1, the exhibit is referred to herein as TWDA-1 to help distinguish
 between the company and the area.

27 ⁶ Official notice is taken of TWDA's Response to Staff's First Set of Data Requests, filed in the Adjudication Dockets
 on March 25, 2011.

28 ⁷ Official notice is taken of Anasazi's Application for Adjudication Not a Public Service Corporation, filed in the
 Anasazi Docket on October 21, 2010.

properties owned by the Thurston family. (Anasazi App. at 1.) The Anasazi water system was later expanded, as additional property was developed, and was passed down to the heirs and assigns of the Thurstons via Red Feather Properties Limited Partnership (“RFP”). (Anasazi App. at 1.) Anasazi has the same ownership as RFP. (Anasazi App. at 1, ex. 2(B).) Except for the South Rim Mobile Home Park, which abuts Thurston family property, all of the property served by the Anasazi water system was originally owned either by the Thurstons or by RFP. (Anasazi App. at 1.)

3. Hydro

Hydro is an Arizona S corporation formed in 1994 for the purpose of exploring and securing additional water resources for private businesses owned or operated in Tusayan by Hydro’s owners. (Hydro Adj. App. at 2;⁸ Hydro-6 at 2.) Hydro is owned equally by two individuals—Elling Halvorson and John Seibold. (Tr. at 39.) Hydro’s initial position in the Hydro Adjudication Docket was that Hydro provided water, through facilities owned by Hydro and Hydro’s owners, to TWDA, which then sold the water received from Hydro to some of TWDA’s customers and billed the customers for the water. (Hydro Adj. App. at 2.) Hydro considers itself not to be a public service corporation, but rather a wholesaler that sells water to TWDA for resale. (See Tr. at 37.)

Hydro’s position in this matter has evolved, and it now desires to become the CC&N holder for a unified water system serving the Tusayan area.

Hydro’s President and Certified Operator, John Rueter, is also a member of the Town Council.⁹ (Tr. at 20, 108.)

4. Squire

Squire Motor Inns, Incorporated (“Squire”) is an Intervenor in this matter. Squire is a Washington corporation formed in 1997¹⁰ and under common ownership with Hydro. (See Tr. at 48.) Squire owns and operates a Tusayan hotel known as the Squire Motor Inn or the Best Western Premier Grand Canyon Squire Inn. (Tr. at 51.) Squire serves itself water through a well, storage

⁸ Official notice is taken of Hydro’s Application for Adjudication Not a Public Service Corporation, which was filed in the Hydro Adjudication Docket on November 19, 2010.

⁹ In his capacity as a Town Council member, Mr. Rueter has recused himself from all deliberations and votes related to this matter and the Settlement Agreement. (Tr. at 108.)

¹⁰ Official notice is taken of this information taken from the Commission’s Corporations Division database, starpas.azcc.gov.

1 tank, and water lines that it owns. (Squire Dir. 2011 at 1.¹¹) Squire sells excess water produced by
 2 its well to Hydro and leases a portion of its storage tank to Hydro. (*Id.*) The arrangement between
 3 Squire and Hydro is governed by contract; Squire and Hydro entered into a new Water Sales
 4 Agreement effective January 2013 to replace a Water System Agreement Modification executed in
 5 December 2010 and effective January 1, 2011. (*Id.* at 1, att. 1; Tr. at 47-48; Ex. Squire-1 at ex. A.)
 6 Squire's Vice President and Chief Operating Officer, Greg Bryan, is also the Town Mayor.¹² (Tr. at
 7 51, 52, 56.)

8 5. Town

9 The Town is an Intervenor in this matter. According to its Vice Mayor, the Town is "in its
 10 infancy," having been incorporated in 2010. (*See* Tr. at 115.) The Town Council became aware of
 11 the disparity in water prices in different parts of Tusayan, and of the question concerning the identity
 12 of the water authority, shortly after the Town was incorporated. (Tr. at 110.) The Town originally
 13 considered forming a municipal water utility, and through the Town Engineer commissioned Ray
 14 Jones of ARICOR Water Solutions ("ARICOR")¹³ to perform a study to inform the Town's decision.
 15 (Jones Dir. 2011 at 3.¹⁴) The Tusayan Municipal Water Study ("Water Study") was completed in
 16 July 2011. (*Id.* at ex. B.) After reviewing the Water Study, the Town Council determined that the
 17 Town is not ready to create and operate a municipal water utility at this time, although it may still
 18 consider forming a municipal utility in the future. (Tr. at 115.) The Town became involved as an
 19 Intervenor in this matter because of its interest in having its residents receive safe and reliable water
 20 utility service at consistent and equitable rates. (*See* Tr. at 110.)

21 6. Staff

22 This matter arose because Staff had contacted TWDA and advised it to file a rate application.
 23 Staff subsequently drew Anasazi and Hydro into this matter through communications with each
 24

25 ¹¹ Official notice is taken of the Direct Testimony of Greg Bryan filed in the Adjudication Dockets on September 1, 2011.

26 ¹² In his role as Mayor, Mr. Bryan has recused himself from all Town Council deliberations and voting related to this matter and the Settlement Agreement. (Tr. at 52, 55.)

27 ¹³ Interim Public Management Services and Willdan Engineering as the Town Engineer oversaw the study. (Jones Dir. 2011 at 3.)

28 ¹⁴ Official notice is taken of the Direct Testimony of Ray L. Jones filed in the Adjudication Dockets by the Town on July 27, 2011.

1 initiated because of information provided in TWDA's rate application which led Staff to believe that
2 Anasazi and Hydro might be operating as public service corporations.

3 D. Water Utility Facilities & Service in Tusayan

4 For approximately 15 years, TWDA bought water from the National Park Service and sold the
5 water to residents and businesses in the Tusayan area. (Ex. TWDA-1 at 6.) In the mid-1990s,
6 Anasazi and Hydro drilled private wells and began producing water. (*Id.*) TWDA then began billing
7 customers for water produced by Anasazi and Hydro rather than water purchased from the National
8 Park Service, with each customer's bill based on consumption data provided by Hydro and Anasazi
9 and the "wholesale" rate each charged TWDA for the water provided. (*Id.* at 6-7.) TWDA has never
10 owned any of the infrastructure necessary to provide water utility services directly and has always
11 performed only billing and other administration-related functions, rather than functions associated
12 with water system operations and regulatory compliance. (*Id.* at 7.) All water system operational
13 functions, such as water quality control and associated regulatory compliance activities, are and have
14 been conducted by the party owning the water and infrastructure involved—Anasazi, Hydro, or
15 Squire. (*Id.*) If TWDA receives a customer call related to a service problem, TWDA contacts either
16 Anasazi or Hydro to address the problem, depending on where the customer is located. (Tr. at 104-
17 05.) TWDA's operating expenses include the costs associated with accounting and billing services,
18 which also involve being available for customer communications related to TWDA's administrative
19 functions. (Ex. TWDA-1 at 8-9.) TWDA recoups its operating costs by charging a small
20 administrative fee per gallon (currently set at \$0.0004 per gallon) on each customer's bill. (*Id.* at 7;
21 TWDA 1st DR at 1.) TWDA never actually takes possession of any water from either Hydro or
22 Anasazi. (TWDA 2nd DR at 1.¹⁵) As of the filing of TWDA's rate application in 2010, the price
23 charged by TWDA for water served through Hydro's system was \$24.50 per thousand gallons, and
24 the price charged by TWDA for water served through Anasazi's system was \$55.00 per thousand
25 gallons, not including TWDA's administrative fee of \$0.40 per thousand gallons. (Brainard Dir.

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28 ¹⁵ Official notice is taken of TWDA's Response to Staff's Second Set of Data Requests, filed in the Adjudication Dockets on March 25, 2011.

2011 at 5, ex. 3.¹⁶)

The Town Water Study conducted in 2011 by ARICOR reached the following conclusions and findings, among others:

- TWDA holds the CC&N to provide water service to Tusayan, but TWDA has no physical assets.
- Hydro owns one well, one 525,000 gallon reservoir and a water distribution system. Hydro relies upon water lines owned by Squire . . . and others to supply and move water through the system. Hydro relies on a tank owned by Squire to provide water service.
- A Reconstruction Cost New Less Depreciation ["RCNLD"] value of \$926,764 is established for the Hydro assets.
- Anasazi has nine customers, with three of the customers connected to an isolated portion of its distribution system receiving water from an interconnection with Hydro's distribution system. Anasazi owns one well and a 400,000 gallon storage tank. The system is supplied by hauled water from Valle Canyon Water and purchases from Hydro. The well pump and motor are not in service and have been removed from underground and are lying on the ground at the well site.
- The [RCNLD] value of the Anasazi assets is \$600,409.
- The RCNLD valuation provides an indicator of the value of the Hydro and Anasazi water system assets. However, when establishing value of a water system, RCNLD is not the only consideration. Consideration should be given to the key operational analysis findings, which would tend to lower system valuation absent corrective actions.
- The physical age, condition and location of several of the major assets, including the Hydro Storage Tank, the Anasazi Storage Tank, the Anasazi Well and the Hydro Fire Pump, make it likely that they will require extensive reconstruction in the near future.
- The Hydro distribution system cannot be operated in its present configuration without use of the Squire distribution system and other privately owned water lines.
- Common ownership of distribution system facilities is desirable and would allow for improved planning, maintenance and operation of the system without danger of conflict or misunderstandings between the various system owners.
- The Town should consider acquiring the Anasazi and Hydro distribution systems as part of a purchase of all distribution facilities used to provide water service to Tusayan.
- If the [Town] does not purchase the distribution facilities used, but not owned by Hydro, the [Town] will need to obtain operating agreements with Squire and other private entities to use the well capacity, reservoir storage and water mains in order to be able to operate the system in its present configuration.

¹⁶ Official notice is taken of the Direct Testimony of Christopher Brainard filed in the Adjudication Dockets by TWDA on June 22, 2011.

[The additional key operational findings affecting the value of Hydro's assets and tending to make the value lower than the RCND valuation are:]

- Hydro's Well, Tusayan #2, is not adequate to provide service to the combined system without being supplemented by Squire #1 owned by Squire.
- Hydro uses 2.0 million gallons of storage in Squire's 3.0 million gallon water storage tank.
- The specific terms of Hydro's use of Squire's well, storage tank and distribution facilities are not clearly documented.
- There is a lack of formal easements for the water lines.
- There is a lack of documentation regarding the ownership and maintenance responsibilities for the privately owned distribution facilities.
- Due to the age and condition of the storage tank, fire pump and piping significant reconstruction is likely to be required in the near future.

[The additional key operational findings affecting the value of Anasazi's assets and tending to make the value lower than the RCND valuation are:]

- The Anasazi well is not currently operational and has a reported history of low production, causing reliance on hauled water to meet demands. The current condition of the well is unknown.
- The Anasazi system is currently reliant upon hauled water for all customer demands, except for the three customers that receive water from the Hydro distribution system.
- Anasazi's storage tank is 8' shorter than Hydro's storage tanks and installed at an elevation approximately 15 feet lower than Hydro's tanks, causing the Anasazi and Hydro distribution systems [to] operate at different hydraulic grade lines. The hydraulic grade line difference will make interconnecting the systems and fully utilizing the Anasazi storage capacity difficult or impossible.
- Due to the unknown condition of the well and the age of the storage tank significant reconstruction is likely to be required in the near future.¹⁷

In its October 2010 application, Anasazi reported that its water system served nine customers,¹⁸ only two of which were neither affiliates nor tenants of RFP. (*Id.*) Anasazi's water system facilities included a 400,000-gallon water tank, a well with a pump house and miscellaneous electrical equipment, fencing around the water tank, all of the water lines from the well and tank to Anasazi customers, and 10 water meters. (Anasazi App. at ex. 2(B).)

¹⁷ Jones Dir. 2011 at 4-7; *See also* Jones Dir. 2011 at ex. B.

¹⁸ These were identified as Red Feather Lodge, RP's Stage Stop, Wendy's, Grand Canyon Trading Post, Express Mini Mart, Café Tusayan, Babbitt's General Store, South Rim Mobile Home Park, and the McDonald's dormitory. (Anasazi App. at 1.) Anasazi also reported that the property on which the McDonald's dormitory is located was originally owned by the Thurston family and, further, that the South Rim Mobile Home Park had already requested to be removed from Anasazi's water system. (*Id.*)

As of the hearing in this matter, all but one of Anasazi's customers had been transitioned to Hydro's system for service, which involved physically connecting portions of Anasazi's distribution system to the South Rim Mobile Home Park.¹⁹ (Tr. at 27-28.) As each customer formerly served by Anasazi's water system has been transitioned to Hydro's system, the customer's rate has also been transitioned to the much lower current Hydro rate.²⁰ (See Tr. at 37, 101.) Transitioning the one remaining customer, a Wendy's restaurant, was estimated to require 200 feet of two-inch line for connection and to be completed within approximately 90 days after the hearing. (Tr. at 33.) At the hearing, Ms. Fain²¹ testified that Anasazi's operations consisted of collecting money after bills are sent out by TWDA and having Anasazi's system operator ensure ADEQ compliance and that everything is running smoothly and maintained. (Tr. at 84-86, 89.) Anasazi reported that it had taken all of the steps required of it under both the Settlement Agreement and the Transfer Agreement, which included transferring assets and assigning easements. (Tr. at 84-86, 89.)

Hydro's water system is described below.

II. Procedural History

On April 29, 2010, TWDA filed a permanent rate application in the TWDA Rate Docket.

On June 4, 2010, in the TWDA Rate Docket, Staff filed a Letter of Insufficiency, stating that TWDA's application did not meet the sufficiency requirements of A.A.C. R14-2-103 and also that TWDA had been classified as a Class B utility.

On July 2, 2010, in the TWDA Rate Docket, Tusayan Ventures LLC ("T Ventures") filed an Application for Leave to Intervene. No filings were made to oppose T Ventures' requested intervention.

...

¹⁹ The South Rim Mobile Home Park, Babbitt's General Store, and the Express Mini-Mart were transitioned without the need for any new connections and started being billed at the current Hydro rate on January 1, 2013. (See Tr. at 99-101; Hydro LFE.) The McDonald's dormitory and the Grand Canyon Trading Post required physical connections, which were completed on November 20, 2013, and they starting being billed at the current Hydro rate on December 1, 2013. (Hydro LFE.)

²⁰ Mr. Brainard has not noticed any change in consumption for those former Anasazi customers who are now being serviced by Hydro and being charged the current Hydro rate, although their bills have consequently gone down substantially. (Tr. at 105-06.) Mr. Brainard reported that a typical residential customer monthly bill would be around 2,000 gallons and that there is no typical commercial customer monthly bill. (Tr. at 105.)

²¹ Ms. Fain, a member of Anasazi since approximately 1997 and manager of Anasazi since approximately 2006, performs general administrative duties, including collecting revenues and paying bills. (Tr. at 81-82.)

1 On July 19, 2010, in the TWDA Rate Docket, a Notice of Intervention was issued granting T
2 Venture intervention.

3 On July 21, 2010, in the TWDA Rate Docket, the Commission's Legal Division docketed a
4 letter sent by it to Hydro, requesting, on behalf of Staff, that Hydro either file an application for a
5 CC&N or file a request to be adjudicated "not a public service corporation." The Commission's
6 Legal Division docketed a similar letter sent by it to Anasazi.

7 On October 21, 2010, in the Anasazi Adjudication Docket, Anasazi docketed an Application
8 for Adjudication "Not a Public Service Corporation."

9 On November 19, 2010, in the Hydro Adjudication Docket, Hydro docketed an Application
10 for Adjudication "Not a Public Service Corporation."

11 On December 2, 2010, in the TWDA Rate Docket, the Anasazi Adjudication Docket, and the
12 Hydro Adjudication Docket, Staff filed Requests for Procedural Conference, stating that both Hydro
13 and Anasazi had filed adjudication applications and that the issues in the three matters were complex
14 and interrelated. Staff asserted that at least a suspension of the TWDA Rate Case would be
15 appropriate.

16 On December 10, 2010, in the TWDA Rate Docket, the Anasazi Adjudication Docket, and the
17 Hydro Adjudication Docket, Procedural Orders were issued scheduling a joint procedural conference
18 to be held on January 4, 2011, to discuss the possibility of consolidation and the process going
19 forward.

20 On December 30, 2010, in the TWDA Rate Docket, a letter was filed by the Town, through its
21 Interim Town Manager, requesting that the Commission not take action on the issue of water service
22 in the Town without the Town "having a seat at the table" to provide input. The Town did not
23 address whether it desired to intervene.

24 On January 4, 2011, a joint procedural conference was held for the TWDA Rate Docket, the
25 Anasazi Adjudication Docket, and the Hydro Adjudication Docket, with T Ventures, Anasazi, Hydro,
26 and Staff appearing through counsel and TWDA represented by its contracted Certified Public
27 Accountant ("CPA"). It was determined that TWDA had not authorized a legally qualified
28

1 representative²² to appear on its behalf and had not officially provided its position on consolidation
2 and suspension of the ratemaking process. It was also determined that the other parties present
3 generally supported consolidation and the suspension of the ratemaking process and supported having
4 the Town participate in the three dockets. Counsel for Hydro also stated that he believed the issue of
5 intervention was to be discussed at the Town Council meeting scheduled to be held the next day.

6 On January 4, 2011, in the TWDA Rate Docket, the Anasazi Adjudication Docket, and the
7 Hydro Adjudication Docket, Procedural Orders were issued scheduling a second joint procedural
8 conference to be held on February 7, 2011; requiring TWDA to file, by January 14, 2011, a Board
9 Resolution identifying and authorizing a legally qualified representative, providing TWDA's position
10 on consolidation, and providing TWDA's position on suspension of TWDA's ratemaking process
11 pending resolution of the Anasazi and Hydro adjudication issues; and requiring the Town to file, by
12 January 20, 2011, either a Motion to Intervene or an explanation should the Town desire not to
13 participate as a party, along with a Town Council Resolution authorizing the filing to be made. The
14 other parties were further provided a deadline for any response to the Town's filing.

15 On January 14, 2011, in the TWDA Rate Docket, a Notice of Appearance was filed by
16 counsel for TWDA. TWDA also filed a Response to Motion for Consolidation and Suspension of
17 Rate Case Process, stating that TWDA had no objection to consolidation and no objection to
18 suspending the rate case process pending resolution of the other issues in the three dockets.

19 On January 18, 2011, a Procedural Order was issued consolidating the TWDA Rate Docket,
20 the Anasazi Adjudication Docket, and the Hydro Adjudication Docket ("the Adjudication Dockets")
21 and suspending the rate case process and the time-frame for TWDA's rate application, pending
22 further order.²³

23 On January 20, 2011, the Town filed a Motion to Intervene, along with a certification by the
24 Town Clerk concerning the Town Council's authorizing the Town to seek intervention.

25 ...

26
27 ²² The CPA was neither a corporate officer nor an employee, and thus was not qualified to represent TWDA under
A.R.S. § 40-243(B) and Arizona Supreme Court Rule 31(d)(28).

28 ²³ Because all filings from this point until September 12, 2013, were made in the Adjudication Dockets, references to
the Adjudication Dockets are omitted here for the sake of brevity.

1 On January 27, 2011, Staff filed a Response to the Town's Motion to Intervene, stating that
2 Staff had no opposition.

3 On February 7, 2011, a procedural conference was held, with TWDA, T Ventures, Anasazi,
4 Hydro, the Town, and Staff appearing through counsel. The Town's Motion to Intervene was granted
5 without objection, TWDA agreed to have its rate application deemed amended to include an
6 application for adjudication of TWDA's status as a public service corporation, and it was determined
7 that Staff would be engaging in discovery and would issue a letter addressing the sufficiency or
8 deficiency of each application for adjudication by April 8, 2011. It was further determined that
9 another procedural conference would be held in mid-April 2011, with negotiations occurring in the
10 meantime as the Town explored whether it could acquire the property needed to establish a municipal
11 water department to provide service in TWDA's CC&N area. TWDA also expressed an interest in
12 taking the steps needed to become a public service corporation, should it ultimately be determined
13 not to be a public service corporation.

14 Also on February 7, 2011, a Procedural Order was issued memorializing the deadline for
15 Staff's sufficiency/deficiency filing and scheduling a procedural conference to be held on April 18,
16 2011.

17 On March 25, 2011, TWDA filed its Response to Staff's First Set of Data Requests and its
18 Response to Staff's Second Set of Data Requests.

19 On April 14, 2011, the Town filed a Status Report describing its due diligence inquiries
20 regarding the feasibility of acquiring the assets needed to create a municipal utility, a process that
21 would also require voter approval. Additionally, the Town requested that the Commission consider
22 establishing interim rates to address the disparity in the untariffed rates being charged in TWDA's
23 CC&N area.

24 On April 18, 2011, a procedural conference was held, with TWDA, Hydro, Anasazi, T
25 Ventures, the Town, and Staff all appearing through counsel. Staff indicated that it had issued Letters
26 of Sufficiency for the three adjudication applications, although they had inadvertently not been filed
27 in the Adjudication Dockets. It was determined that a procedural schedule should be established to
28 move forward with the adjudication applications, although TWDA, Hydro, and Anasazi all expressed

1 continued willingness to engage in discussions with the Town regarding establishment of a municipal
2 water utility.

3 On April 18, 2011, Staff filed copies of data request letters to Hydro, Anasazi, and TWDA, all
4 of which were dated March 11, 2011.

5 On April 20, 2011, a Procedural Order was issued establishing a procedural schedule,
6 including a hearing to commence on September 9, 2011, and a requirement for notice to be provided
7 by mail to customers in the TWDA CC&N area and by publication in a newspaper of general
8 circulation in the area.

9 Also on April 20, 2011, Staff filed Staff's Notice of Filing, stating that Staff requested the
10 hearing to commence on September 21, 2011, because the procedural schedule in an unrelated docket
11 would conflict with the procedural schedule herein if the other matter did not reach settlement. This
12 Motion was deemed denied as of May 10, 2011.

13 On June 8, 2011, Hydro filed Certification of Mailing and Publication, stating that Hydro had
14 caused notice of the hearing to be published in the *Williams-Grand Canyon News* on four consecutive
15 weeks, beginning on April 13, 2011, and ending on May 4, 2011, and had mailed a copy of the notice
16 to all affected property owners on May 18, 2011. Hydro also included an Affidavit of Publication
17 from the *Williams-Grand Canyon News*.

18 On June 20, 2011, Hydro filed the Direct Testimony of John W. Rueter, President and CEO of
19 Hydro.

20 On June 20, 2011, Anasazi filed the Direct Testimony of Pamela Fain, Manager of Anasazi.

21 On June 22, 2011, TWDA filed a Motion for Extension of Time to File Direct Testimony, as
22 its initial filing had not been accepted by the Commission's Docket Control when filing was
23 attempted on June 20, 2011. TWDA also filed the Direct Testimony of Christopher Brainard, its
24 CPA.

25 On July 19, 2011, Staff filed a Request for Extension of Time, requesting a one-week
26 extension for Staff and Intervenors to file Direct Testimony. Staff stated that the other parties had
27 been contacted and had no objections.

28 ...

1 On July 20, 2011, T Ventures filed a Notice of Filing stating that it would not be providing
2 any witness testimony either before or at hearing, but would engage in cross-examination.

3 On July 21, 2011, a Procedural Order was issued extending to July 27, 2011, the deadline for
4 Staff and Intervenors to file direct testimony and associated exhibits.

5 On July 27, 2011, Staff filed the Direct Testimony of Kiana M. Sears, Executive Consultant I,
6 and Marlin Scott, Jr., Utilities Engineer.

7 On July 27, 2011, the Town filed the Direct Testimony of Ray L. Jones, ARICOR Water
8 Solutions, LC, who is a licensed Professional Engineer and Grade 3 Certified Operator and was hired
9 as a consultant.

10 On August 1, 2011, Squire filed an Application to Intervene and Conditional Motion for
11 Extension of Time ("Squire Motion"), stating that Squire sells water to Hydro through a Water
12 System Agreement and will thus be directly and substantially affected by the proceedings, requesting
13 that the filing and hearing dates be extended, and suggesting that the September 9, 2011, hearing date
14 be used for a settlement conference.

15 On August 2, 2011, a Procedural Order was issued requiring each party, by August 12, 2011,
16 to file a response to the Squire Motion.

17 On August 3, 2011, Staff filed Staff's Response to Motion to Intervene and Continuation,
18 stating that Staff did not oppose the Squire Motion and that Squire was necessary to a resolution of
19 the matter.

20 On August 4, 2011, Hydro made a filing joining in the Squire Motion and stating that focus in
21 the matter should shift from litigation to settlement discussions with the goal of merging the existing
22 systems into an integrated system that would be operated by either the Town or a successor CC&N
23 holder.

24 On August 5, 2011, the Town filed a Response stating that it did not oppose the Squire
25 Motion.

26 On August 8, 2011, Anasazi filed a Response stating that it joined in Hydro's filing and thus
27 the Squire Motion.

28 Also on August 8, 2011, Anasazi filed the Rebuttal Testimony of Ms. Fain.

1 On August 10, 2011, Hydro filed the Rebuttal Testimony of Mr. Rueter.

2 On August 12, 2011, T Ventures filed a Response to the Squire Motion, stating that it agreed
3 Squire should be granted intervention and that the September 9, 2011, hearing date should be used as
4 a settlement conference, but that the hearing should commence on September 21, 2011, because any
5 further delay would not be in the public interest.

6 On August 12, 2011, the Town filed a Request for a change to the service list so that all
7 mailings would be sent to Town Manager Enrique Medina Ochoa rather than the previous Interim
8 Manager.

9 On August 15, 2011, TWDA filed a Response stating that it did not oppose the Squire
10 Motion.

11 On August 16, 2011, the Town filed a Partial Joinder in T Ventures' Response to the Squire
12 Motion, stating that it agreed the hearing should commence on September 21, 2011.

13 On August 17, 2011, a Procedural Order was issued granting Squire intervention; requiring
14 Squire to file direct testimony and exhibits by September 1, 2011; stating that the hearing scheduled
15 for September 9, 2011, would proceed only for the purpose of taking public comment and holding a
16 procedural conference; and allowing the parties use of the hearing room for the remainder of the
17 business day after adjournment, for purposes of engaging in settlement discussions.

18 On August 24, 2011, Staff filed a Notice stating that Staff stood by its Direct Testimony and
19 would not be filing Surrebuttal Testimony in response to the Rebuttal Testimony of Anasazi and
20 Hydro, but reserved the right to file testimony responding to the testimony to be filed by Squire.

21 On September 1, 2011, Squire filed the Direct Testimony of Greg Bryan, General Manager
22 and an officer of Squire.²⁴

23 On September 2, 2011, Hydro filed a Notice stating that it would be standing by its Direct and
24 Rebuttal Testimony and would not be filing Rejoinder Testimony. Hydro further stated that it joined
25 in the position of Squire presented in Mr. Bryan's Direct Testimony.

26 ...

27
28 ²⁴ Mr. Bryan also identified himself as the Town's Mayor, but stated that his testimony was presented solely in his private capacity, not in his official capacity as Mayor.

1 On September 9, 2011, the Public Comment Proceeding was convened as scheduled, with no
2 members of the public attending to provide comment. The procedural conference then proceeded,
3 with all parties appearing through counsel. TWDA, Hydro, Anasazi, and Squire opposed going
4 forward with the scheduled hearing, as they had been engaging in settlement discussions and had
5 reached a "conceptual agreement" to have Hydro become a CC&N holder and acquire the property
6 necessary to provide service through a single unified water system. Staff agreed that September 21,
7 2011, would be too soon for a hearing to proceed for purposes of reviewing a settlement agreement.
8 Hydro suggested that the parties be provided an additional 60 to 90 days to engage in settlement
9 discussions, after which another status conference would be held. Staff desired the status conference
10 to be held sooner. T Ventures and the Town stated that the hearing should proceed in September 21,
11 2011, and further that T Ventures was working with the Town to begin development, and the Town
12 still desired ultimately to have a municipal water utility. It was determined that the September 21,
13 2011, hearing date would be vacated and that a procedural conference would be scheduled for early
14 October 2011. The parties were encouraged to work together toward resolution, were cautioned to
15 avoid any arrangements that could be viewed as self-dealing, and were provided the opportunity to
16 use the hearing room for settlement discussions that day.

17 On September 9, 2011, a Procedural Order was issued vacating the evidentiary hearing
18 scheduled for September 21, 2011, and scheduling a procedural conference to be held on October 7,
19 2011, for the purpose of obtaining updates on the parties' positions as well as proposals for how the
20 matter should proceed.

21 On October 7, 2011, the procedural conference was held as scheduled, with all parties
22 appearing through counsel. TWDA, Hydro, and Anasazi reported that they had memorialized the
23 broad terms of their conceptual agreement into a draft settlement agreement, which had been routed
24 to the other parties the previous day. The parties reported that the draft agreement would have Hydro
25 obtain the property and rights necessary to become the single water utility for the area, although
26 Hydro would maintain its contractual relationship with Squire. T Ventures requested that a hearing
27 be scheduled. The other parties all supported allowing additional time for the parties to work out the
28 remaining issues and requested that another procedural conference be scheduled.

1 On October 13, 2011, a Procedural Order was issued scheduling a procedural conference to be
2 held on November 21, 2011, for the purpose of obtaining updates on the parties' positions as well as
3 proposals for how the matter should proceed.

4 On November 21, 2011, the procedural conference was held as scheduled, with all parties
5 appearing through counsel. The parties reported that additional progress had been made toward
6 settlement and that all parties were expected to enter into the settlement agreement. It was also
7 reported that TWDA, Anasazi, and Hydro were working on a separate agreement regarding the
8 transfer of property and rights to Hydro, to allow Hydro to operate a unified water system for the
9 service area. Regarding CC&N authority, Staff suggested that Hydro apply for a new CC&N and
10 that TWDA apply to cancel its CC&N, with the two cases to run concurrently. It was determined that
11 another procedural conference would be held in approximately 45 to 60 days.

12 On November 22, 2011, a Procedural Order was issued scheduling a procedural conference to
13 be held on January 17, 2012.

14 On January 17, 2012, the procedural conference was held as scheduled, with all parties
15 appearing through counsel. The parties reported that progress continued on both the settlement
16 agreement to be entered by all parties and the separate transfer agreement involving Hydro and
17 Anasazi. The parties stated that they intended to have both agreements executed at the same time and
18 within the next 45 days and agreed that the proceedings for cancellation of TWDA's CC&N and
19 Hydro's application for a new CC&N should also be resolved in this matter, with the applications to
20 be filed promptly after execution of the agreements. It was determined that another procedural
21 conference should be held in 45 to 60 days.

22 On January 17, 2012, a Procedural Order was issued scheduling a procedural conference to be
23 held on March 19, 2012. The Procedural Order further required the parties to file copies of the
24 settlement agreement upon execution and required TWDA and Hydro to file their respective CC&N-
25 related applications within 14 days after execution.

26 On March 19, 2012, a procedural conference was held as scheduled, with all parties appearing
27 through counsel. The parties reported that substantial progress continued, but that the parties were
28 still working out the language of the settlement agreement and were not yet ready to discuss

1 establishment of a procedural schedule. Hydro and Anasazi also reported that they had not yet
2 completed the transfer agreement. The parties requested that another procedural conference be
3 scheduled at the end of April 2012.

4 On March 19, 2012, a Procedural Order was issued scheduling a procedural conference to be
5 held on April 30, 2012.

6 On April 30, 2012, the procedural conference was held as scheduled, with the parties
7 appearing through counsel. The parties reported that there had been a brief impasse in their
8 negotiations, but that they had again reached a conceptual agreement; that they intended to hold a
9 meeting to iron out remaining language; and that they all still anticipated entering into a settlement
10 agreement. Hydro reported that the service area to be proposed in its upcoming CC&N application
11 would be different than originally anticipated, as the "Red Feather properties" would be excluded,²⁵
12 and some additional properties would be included, but that Hydro's preparations were ongoing.
13 Hydro also reported that the price disparities in the service area might be eliminated while its CC&N
14 application was pending. Hydro requested that it be provided 30 days after execution of a settlement
15 agreement to file its CC&N application, and it was determined after discussion that 45 days would be
16 more appropriate.

17 On May 3, 2012, a Procedural Order was issued revising the filing requirements established in
18 the Procedural Order of January 17, 2012, to allow TWDA and Hydro 45 days after execution of a
19 settlement agreement to file their respective CC&N-related applications.

20 No additional filings were made until March 29, 2013.

21 On March 29, 2013, a Procedural Order was issued requiring each party, by April 26, 2013, to
22 file a document providing an update on the status of the settlement efforts, the party's position
23 regarding the best process to go forward and reach resolution in the matter, and any additional
24 information the party believed to be relevant regarding the current or future state of water service in
25 the affected area.

26 ...

27
28 ²⁵ It was reported that the Red Feather properties would be providing service to themselves and no others.

1 On April 3, 2013, the Town filed a request for revision of the service list to reflect the name
2 of Town Manager Tami Ryall rather than the former Town Manager and to reflect a new firm and
3 address for counsel for the Town.

4 On April 25, 2013, the Town filed a Status Report stating that the Town had not been engaged
5 in any settlement negotiations since April 2012 and requested that Hydro, TWDA, Anasazi, and
6 Squire report the status of their negotiations and circulate the latest draft of the settlement agreement
7 for review by all parties. The Town further stated that if such action was not accomplished before
8 May 1, 2013, counsel for the Town would meet with the Town Council to obtain direction
9 concerning the Commission's scheduling of hearing on the TWDA, Hydro, and Anasazi adjudication
10 applications.

11 On April 26, 2013, T Ventures filed a Status Report stating that it had had little to no contact
12 with the other parties since the last procedural conference, that the bulk of negotiations needed to
13 occur between Hydro and Anasazi, and that if the other parties' filings did not indicate imminent
14 completion of a settlement agreement, the Commission should schedule a hearing.

15 Also on April 26, 2013, Staff filed a Status Update stating that it had not participated in
16 settlement discussions with the parties, but had been in contact with Anasazi and Hydro, who
17 reported that the transfer documents between them were still under review but should be resolved
18 shortly. Staff suggested that the parties be required to file monthly updates and that, if no settlement
19 agreement had been docketed within 180 days, a hearing be scheduled for the adjudication
20 applications.

21 On April 26, 2013, Squire filed a Status Report stating that Squire supported the settlement
22 concept and was ready to sign a settlement agreement and that Squire had reached agreement with
23 Hydro regarding the terms of a revised water sales agreement, although the agreement had not yet
24 been completed. Squire suggested that a procedural conference be scheduled in early June 2013, that
25 the parties be required to file any settlement agreement at least one week before the procedural
26 conference date, and that each party be prepared to schedule a firm hearing date during the procedural
27 conference.

28 ...

1 On April 26, 2013, Hydro, Anasazi, and TWDA filed a Joint Status Report stating that dozens
2 of documents were created to effectuate the sale and transfer of assets and property interests from
3 Anasazi to Hydro, that Hydro had completed those documents and provided them to Anasazi for
4 review in March 2013, that Anasazi anticipated completing its review by mid-May 2013, and that the
5 parties expected to sign and docket the settlement agreement and transfer agreement in May 2013.
6 The parties further reported that Hydro had been working on its CC&N application; that TWDA had
7 begun serving water provided by Hydro, at Hydro's lower rate, to certain customers who had been
8 receiving water provided by Anasazi; and that TWDA would continue to provide service until a firm
9 take-over date was established in the CC&N related proceedings.

10 On May 2, 2013, a Procedural Order was issued requiring each party to file a status update,
11 including specified information, by June 3, July 1, and August 1, 2013. The Procedural Order further
12 scheduled a procedural conference to be held on August 20, 2013.

13 On June 3, 2013, Staff filed a Status Update, reporting that discussions were reported to be
14 ongoing between Hydro and Anasazi and recommending that a procedural conference be scheduled
15 shortly after August 31, 2013, should a settlement agreement not be docketed by that date.

16 On June 3, 2013, the Town filed a Status Report stating that the Town had not been involved
17 in any negotiations and had not received a copy of a proposed settlement agreement since its prior
18 Status Report; that the Town was prepared to hold a Town Council meeting to consider the settlement
19 agreement once received; and that if the settlement agreement was not ready for final review and
20 approval within the next 30 days, the Town would schedule a meeting to consider making other
21 procedural recommendations to the Commission.

22 On June 3, 2013, T Ventures filed a Notice stating that T Ventures had requested to be
23 removed as a signatory on the settlement agreement and that T Ventures had no additional
24 information to report.

25 On June 3, 2013, Squire filed a Status Report stating that Squire intended to enter into the
26 settlement agreement, that Squire was frustrated and concerned because the settlement agreement had
27 not been finalized, and that an evidentiary hearing or hearings be scheduled if no settlement
28 agreement was forthcoming.

1 On June 3, 2013, Hydro, Anasazi, and TWDA filed a Joint Status Report stating that they still
2 intended to enter into a settlement agreement, if agreement could be reached on the details of the
3 transfer agreement and the exhibits thereto. The parties reported that Anasazi and Hydro had met,
4 that Anasazi had provided Hydro comprehensive edits on the conveyance documents and the transfer
5 agreement for review, and that Hydro's comments were expected shortly. The parties reported that
6 the issues regarding the transfer agreement and its exhibits were driving the execution for the
7 settlement agreement and that if the issues could not be resolved, Hydro still intended to file a CC&N
8 application, and Anasazi still intended to dissolve and not become a public service corporation.
9 Hydro, Anasazi, and TWDA further reported that TWDA would continue to provide service until its
10 CC&N was cancelled and that they would work together with each other and Staff to provide for an
11 orderly deletion of TWDA's CC&N and transition of service, even if the settlement and transfer
12 agreements could not be completed.

13 On June 27, 2013, T Ventures filed a Notice stating that it had no update.

14 On July 1, 2013, Squire, Staff, Hydro, Anasazi, TWDA, and the Town filed status reports
15 indicating that the final draft settlement agreement and transfer agreement were being reviewed and
16 were expected to be executed and filed by the middle of the month. Hydro, Anasazi, and TWDA
17 further indicated that Hydro's CC&N application would be filed within 30 days after execution of the
18 settlement agreement. The Town indicated that a Town Council meeting would be scheduled for
19 review and consideration of the settlement agreement.

20 On July 30, 2013, T Ventures filed a Notice stating that it had no update.

21 On July 31, 2013, Hydro, Anasazi, and TWDA filed a Joint Status Report stating that Hydro
22 and Anasazi had approved the final version of the settlement agreement and transfer agreement; that
23 TWDA's Board would soon be meeting to approve the agreements; that Staff and Squire were
24 expected to approve and execute the agreements; that the Town Council would be meeting on August
25 7, 2013, to consider the settlement agreement; and that a fully executed settlement agreement should
26 be filed shortly after August 7, 2013. It was further reported that Hydro had a pre-application
27 meeting scheduled with Staff for August 20, 2013.

28 ...

1 On August 1, 2013, Squire and Staff each filed a Status Report indicating agreement with the
2 Joint Status Report filed by Hydro, Anasazi, and TWDA. The Town also filed a Status Report stating
3 that counsel for the Town had recommended that the settlement agreement be approved by the Town
4 Council at the Town Council meeting to be held on August 7, 2013.

5 On August 13, 2013, Staff filed a Notice including a copy of the Proposed Settlement
6 Agreement ("Agreement"), signed by Anasazi, Hydro, TWDA, Staff, Squire, and the Town.

7 On August 20, 2013, the procedural conference was held as scheduled, with all of the parties
8 appearing through counsel. The parties reported that by September 13, 2013, TWDA would be filing
9 an application for cancellation of its CC&N, and Hydro would be filing an application for the
10 issuance of a CC&N. The parties indicated a preference for having the CC&N-related application
11 resolved in the same Decision as the Adjudication Dockets and expected to be able to agree upon a
12 set of stipulated facts concerning the background of Tusayan water service. The need for notice was
13 also discussed, and it was determined that scheduling would be addressed after the CC&N-related
14 applications were filed.

15 On September 12, 2013, Hydro filed a CC&N application in the Hydro CC&N Docket.

16 Also on September 12, 2013, TWDA filed an application for CC&N cancellation in the
17 TWDA Cancellation Docket.

18 On September 17, 2013, in the TWDA Cancellation Docket, TWDA filed a Motion to
19 Consolidate, requesting that the TWDA Cancellation Docket and the Hydro CC&N Docket be
20 consolidated with each other and with the Adjudication Dockets.

21 On September 20, 2013, in the TWDA Cancellation Docket, Hydro and Anasazi made a filing
22 joining in TWDA's Motion to Consolidate.

23 On September 25, 2013, a Procedural Order was issued consolidating the Adjudication
24 Dockets with the TWDA Cancellation Docket and the Hydro CC&N Docket (collectively referenced
25 as "this matter").²⁶

26 ...

27

28 ²⁶ From September 25, 2013, forward, all of the relevant filings were made in this matter.

1 On October 11, 2013, Staff issued a Sufficiency Letter for TWDA's application for CC&N
2 cancellation.

3 On October 15, 2013, Staff issued an Insufficiency Letter for Hydro's CC&N application.

4 On November 5, 2013, Hydro filed data responses.

5 On December 16, 2013, Staff issued a Sufficiency Letter for Hydro's CC&N application.

6 On December 20, 2013, a Procedural Order was issued scheduling a procedural conference to
7 be held on February 3, 2014, and requiring each party to file, at least three days before, a proposed
8 procedural schedule, a proposed form of notice, and a list identifying the persons to whom notice
9 should be provided and in what manner.

10 On January 29, 2014, the parties filed a Joint Proposed Scheduling Order, Form of Notice and
11 Identification of Persons to Receive Notice. The parties proposed, *inter alia*, that a one-day
12 evidentiary hearing be held in May or June 2014.

13 On February 3, 2014, the procedural conference was held as scheduled, with all parties other
14 than T Ventures appearing through counsel. During the procedural conference TWDA agreed to
15 make a filing clarifying the service status, service history, and proposal as to CC&N service area
16 inclusion for two small parcels that are not contiguous to the rest of TWDA's CC&N service area and
17 that reportedly had not received service in recent times. Additionally, the parties were informed that
18 the form of notice to be used would be included in a Procedural Order, and procedural dates were
19 determined for the provision of notice, intervention, and the hearing. The parties were also informed
20 that the CC&N time frames would be suspended for this matter, due to the proposed schedule.

21 On February 4, 2014, a Procedural Order was issued scheduling a hearing to proceed on June
22 4, 2014, and establishing other procedural requirements and dates, including requirements for notice
23 to be provided by mail, posting, and publication. The Procedural Order also suspended the time
24 frames for the Hydro CC&N application and the TWDA application for CC&N cancellation.

25 On March 6, 2014, the Applicants filed Certification of Mailing and Publishing, stating that
26 public notice had been provided as required by the Procedural Order of February 4, 2014. The filing
27 included a copy of the notice with certification that the notice had been posted at the General Store in
28 Tusayan, at the Tusayan Town Hall, and on the Town's website on February 12, 2014. The filing

1 also included an Affidavit of Publication showing that the notice had been published in the *Williams-*
2 *Grand Canyon News* on February 19, 2014.

3 On March 11, 2014, the Applicants filed a Joint Statement Regarding Issues Raised by
4 Isolated Tusayan CCN Areas Not Requested in Hydro's CCN Application, stating that the two
5 isolated parcels, which are located in the Kaibab National Forest, have never been served by TWDA
6 and that the Applicants have no knowledge of water utility infrastructure to the parcels.

7 On March 14, 2014, Staff filed a Staff Report recommending approval of TWDA's
8 application for cancellation, of Hydro's application for a CC&N, and of Anasazi's application for
9 adjudication "not a public service corporation."

10 On April 10, 2014, the Town filed the Direct Testimony of Vice Mayor Al Montoya.

11 On April 11, 2014, Anasazi filed the Direct Testimony of Ms. Fain.

12 On April 14, 2014, Squire filed the Direct Testimony of Mr. Bryan.

13 On April 14, 2014, Hydro filed the Direct Testimony of Thomas J. Bourassa, CPA, a
14 consultant, and the Direct Testimony of Mr. Rueter.

15 On April 14, 2014, TWDA filed the Direct Testimony of Mr. Brainard.

16 On April 25, 2014, T Ventures filed a Request for Withdrawal, asking that it be permitted to
17 withdraw as an Intervenor, as it does not anticipate any further involvement in this matter and will
18 monitor the matter as a member of the public.

19 On May 5, 2014, a Procedural Order was issued granting T Ventures' Request for
20 Withdrawal.

21 On May 14, 2014, Hydro, TWDA, Anasazi, the Town, and Squire filed notice that they would
22 not be filing responsive testimony.

23 On June 2, 2014, Squire filed an Unopposed Motion to Allow Telephonic Testimony,
24 requesting that Mr. Bryan be permitted to testify telephonically at the June 4, 2014, hearing, due to
25 the distance and a meeting scheduled on the date of hearing.

26 On June 3, 2014, a Procedural Order was issued granting Squire's Unopposed Motion.

27 On June 4, 2014, a full evidentiary hearing was held as scheduled, before a duly authorized
28 Administrative Law Judge of the Commission, at the Commission's offices in Phoenix, Arizona, with

all parties appearing through counsel.²⁷ The parties presented documentary evidence and witness testimony, with Hydro presenting the testimony of Mr. Rueter and Mr. Bourassa, Squire presenting the telephonic testimony of Mr. Bryan, Anasazi presenting the testimony of Ms. Fain, TWDA presenting the testimony of Mr. Brainard, the Town presenting the testimony of Mr. Montoya, and Staff presenting the testimony of Michael Thompson, Staff Utilities Engineer, and Kiana Sears, Staff Executive Consultant. No members of the public attended to provide comment.

III. Settlement Agreement

A. Terms

The Settlement Agreement, attached hereto and incorporated herein as Exhibit A, was executed on or around August 13, 2013, by all of the parties²⁸ and filed in the Adjudication Dockets by Staff on August 14, 2013. (Ex. Hydro-4.) The stated purpose of the Settlement Agreement is to resolve the contested Adjudication Dockets in a manner consistent with the public interest. By its terms, the Settlement Agreement “has no binding force or effect until finally approved by an Order of the Commission.”

The Settlement Agreement refers to the separate Transfer Agreement, stating that the Transfer Agreement provides for the following:

- Anasazi transferring to Hydro certain physical plant and property, including distribution lines and meters, along with associated easements and rights-of-way held by Anasazi;
- Anasazi assisting Hydro in obtaining other easements necessary for Hydro to serve parcels east of Route 64 previously served by Anasazi;
- Anasazi dissolving, winding up, and terminating its existence;
- Within 30 days after the execution of the Settlement Agreement, TWDA applying for deletion of its CC&N and Hydro simultaneously filing an application for a new CC&N covering the same area and providing for service to all of TWDA’s customers in the area other than property owned by RFP (referred to as the RFP Campus) for which service will be provided by RFP;

²⁷ T Ventures was no longer a party at this time and did not appear.

²⁸ T Ventures, which has now withdrawn as an Intervenor herein, is the only party to this matter that did not enter into the Settlement Agreement.

- 1 • Hydro acquiring from Anasazi the physical plant, property, and property rights described and
- 2 providing water service to the properties currently served by TWDA, other than the RFP
- 3 Campus;
- 4 • Hydro transferring to RFP the water distribution lines and fire hydrants located on the RFP
- 5 Campus;
- 6 • The parties immediately and diligently proceeding to effect the conveyances described, and
- 7 completing the conveyances no later than 10 days after the date on which a Commission
- 8 Decision approving the Settlement Agreement, deleting TWDA's CC&N, and providing a
- 9 new CC&N to Hydro becomes final and non-appealable ("Transfer Date"); and
- 10 • Anasazi providing the parties monthly updates as to the status of the conveyances until either
- 11 they are complete or the Transfer Date.

12 The Settlement Agreement requires Squire and Hydro to enter into a new contract, or to
13 amend their existing water supply contract, to ensure that Squire becomes a private, stand-alone point
14 of service, selling water to Hydro under the contract.

15 The Settlement Agreement requires that proceedings under the Adjudication Dockets be
16 continued until the Commission approves a new CC&N for Hydro and cancels TWDA's CC&N.

17 The Settlement Agreement provides that if the Commission does not approve the Settlement
18 Agreement and issue a Decision deleting TWDA's CC&N and granting Hydro a new CC&N, as
19 described in the Settlement Agreement, the Settlement Agreement shall be deemed terminated, the
20 Adjudication Dockets shall resume, and any CC&N granted to Hydro shall be null and void after due
21 process.

22 The Settlement Agreement further requires that:

- 23 • TWDA file a request to cancel its CC&N and Hydro simultaneously file an application for a
- 24 new CC&N as described in the Transfer Agreement;
- 25 • The parties file a request for the Adjudication Dockets to be dismissed as moot and closed
- 26 once a Decision is issued granting a new CC&N to Hydro and cancelling TWDA's CC&N;
- 27 • Each party execute and deliver to each other party and the Commission such documents, and
- 28 perform such acts, as reasonably requested by any other party or as required to obtain a

Commission Order dismissing and closing the Adjudication Dockets;

- Hydro and Anasazi continue supplying water to TWDA, and TWDA continue providing water service in the CC&N service area, until a Commission Decision cancels TWDA's CC&N and grants Hydro a new CC&N;
- Nothing preclude Hydro from supplying water to TWDA for TWDA's use in serving the Anasazi serviced parcels at Hydro rates upon Anasazi's transfer of property under the Transfer Agreement;
- Until the Commission grants a new CC&N to Hydro (in a Decision expected to provide a Fair Value Rate Base and rates for the new CC&N area), TWDA continue to charge its current rates unless the rates are revised by agreement of the parties and with Commission approval; and
- Upon Anasazi's transfer of property under the Transfer Agreement, and Hydro's thereafter supplying water to TWDA for TWDA to serve the Anasazi serviced parcels, TWDA charge the affected customers the Hydro rates.

The Agreement states the following regarding Commission evaluation, modification, and approval of the Agreement:

- That Staff does not have the power to bind the Commission;
- That the Commission will evaluate the terms of the Agreement and may require immaterial modifications to any terms of the Agreement before accepting the Agreement;
- That a Commission Decision approving all of the terms of the Agreement without material change would constitute Commission approval of the Agreement and require the parties to abide by the terms of the Agreement;
- That any party objecting to any modification to the terms of the Agreement made by the Commission in a Decision approving the Agreement must timely file an Application for Rehearing under A.R.S. § 40-253 and that a party failing to do so shall be deemed to have accepted any modifications made by the Commission and to have conclusively and irrefutably accepted that any modifications made were not material and that the Commission thus adopted the terms of the Agreement without material change;

- 1 • That any party's filing of an Application for Rehearing alleging that the Commission has
- 2 failed to approve all terms of the Agreement without material change shall be deemed a
- 3 withdrawal of the Agreement, as a consequence of which the parties shall request a
- 4 Procedural Order setting the parties' Applications for Adjudication for hearing;
- 5 • That the provisions of the Agreement and the Transfer Agreement, and associated
- 6 communications and documents, shall not be admitted into evidence for any purpose or used
- 7 by the Commission in its final consideration of the issues raised in the Consolidated Docket;
- 8 • That if a party files an Application for Rehearing before the Commission, Staff shall not be
- 9 obligated to file any document or take any position regarding the withdrawing party's
- 10 Application for Rehearing;
- 11 • That a withdrawing party whose Application for Rehearing is not granted shall either timely
- 12 file an appeal pursuant to A.R.S. § 40-254 or § 40-254.01 or be deemed to have accepted the
- 13 modifications made by the Commission, that such modifications were not material, and that
- 14 the Commission's Decision adopted the terms of the Agreement without material change; and
- 15 • That the Definitive Text of the Agreement shall be the text adopted by the Commission in an
- 16 Order adopting substantially all of the terms of the Agreement, including all modifications
- 17 made by the Commission in such an Order.

18 The Agreement also includes typical language regarding issues such as interpretation of terms
 19 used, persons bound by the terms of the Agreement, the Agreement's not interfering with the
 20 Commission's authority to exercise any regulatory authority through issuance of orders or rules, and
 21 the confidentiality of statements made during negotiations leading up to the Agreement.

22 B. Party Support

23 Without exception, the parties support the Agreement, assert that the Agreement is in the
 24 public interest, and urge the Commission to approve the Agreement. Additionally, the parties agree
 25 that the settlement negotiations were open, transparent, and inclusive; that each party was provided
 26 an equal opportunity to participate and express its respective positions and desired result; that no
 27 party received everything it wanted; and that there was a genuine desire and commitment amongst the
 28 parties to reach a compromise in their collective best interests. (*See, e.g.,* Ex. Anasazi-1 at 2; Ex.

1 Hydro-3 at 3; Ex. Town-1 at 2.)

2 TWDA asserts that it entered into the Agreement because it would not be in the public interest
3 for TWDA to continue to hold the CC&N for the area. (Ex. TWDA-1 at 10.) TWDA explained that
4 to consolidate the components of a water delivery system, TWDA would have had to purchase the
5 wells, water, and infrastructure from private owners including Hydro, Anasazi, and others. (*Id.*)
6 TWDA reasoned that its customers would be better served, and more likely to obtain service at just
7 and reasonable rates based on the cost of obtaining water in Tusayan, if the administrative functions
8 performed by TWDA were performed by the owner of the physical infrastructure of the water
9 delivery system, under the jurisdiction of the Commission. (*See Id.* at 11.)

10 Anasazi asserts that the Agreement is fair, balanced, and in the public interest because Hydro
11 is an established entity with the ability to serve the customers in the CC&N area with no foreseeable
12 issues; the Agreement balances the interests of TWDA, Anasazi, Hydro, and the ratepayers by
13 creating a single utility with uniform rates; and Hydro has the tools and financial health to provide
14 safe, adequate, and reliable service at just and reasonable rates while complying with Commission
15 requirements. (Ex. Anasazi-1 at 4.)

16 Hydro asserts that Commission approval of the Agreement would serve the public interest
17 because it would result in the Town's being served by a single unified and regulated public utility
18 water system rather than the "complex and somewhat confusing assemblage of historical service and
19 rates that currently exists." (Ex. Hydro-3 at 5.) Hydro asserts that it has the necessary experience
20 due to its long involvement in providing water supplies to the Tusayan area; that it is a fit and proper
21 entity to receive a CC&N to provide water utility services; and that it has the skills and assets needed
22 to take on the role of regulated water service provider. (*Id.* at 5, 10-11.)

23 Squire requests that the Commission approve the Agreement, asserting that it is reasonable,
24 fair, and in the public interest. (Ex. Squire-1 at 3.)

25 The Town asserts that Commission approval of the Agreement is in the public interest
26 because of the beneficial impacts that the Agreement will have on Town residents, who have been
27 charged disparate rates for more than 30 years and will be charged consistent, fair, and reasonable
28 rates, as determined by the Commission, as a result of Commission approval of the Agreement,

1 TWDA's CC&N cancellation, and Hydro's CC&N. (*See* Ex. Town-1 at 3-4.)

2 Staff asserts that the Agreement is an appropriate resolution of the complex issues in this
3 matter and that the public interest would be served by the Commission's approval of the Agreement.
4 (Ex. S-3 at 3.)

5 **IV. TWDA Rate Application**

6 TWDA agreed to have its rate application deemed amended to include an application for
7 adjudication of status as a public service corporation and to have the ratemaking process and timeline
8 suspended. TWDA now seeks to have its CC&N cancelled rather than having its public service
9 corporation status adjudicated or new rates established. The Agreement calls for the applications in
10 the Adjudication Dockets to be dismissed as moot and the Adjudication Dockets to be closed, upon
11 the issuance of an Order by the Commission granting a new CC&N to Hydro and deleting or
12 cancelling TWDA's CC&N. TWDA has indicated that it intends to cease operations and terminate
13 its existence if Hydro is granted a CC&N.

14 **V. Anasazi Adjudication Application**

15 The Agreement calls for the applications in the Adjudication Dockets to be dismissed as moot
16 and the Adjudication Dockets to be closed, upon the issuance of an Order by the Commission
17 granting a new CC&N to Hydro and deleting or cancelling TWDA's CC&N. The Agreement also
18 calls for Anasazi to wind down its operations and cease to exist after completing its tasks under the
19 Agreement and Transfer Agreement.

20 **VI. Hydro Adjudication Application**

21 The Agreement calls for the applications in the Adjudication Dockets to be dismissed as moot
22 and the Adjudication Dockets to be closed, upon the issuance of an Order by the Commission
23 granting a new CC&N to Hydro and deleting or cancelling TWDA's CC&N. Hydro's decision to
24 become a public service corporation, evidenced by its application for a CC&N, has rendered moot
25 Hydro's initial position, put forth in the Hydro Adjudication Docket, that Hydro should be
26 adjudicated not a public service corporation.

27 ...

28 ...

1 **VII. TWDA CC&N Cancellation**

2 TWDA has applied for cancellation of its CC&N, pursuant to the Agreement, and asserts that
3 TWDA's customers will benefit more from having Hydro become the CC&N holder than from
4 having TWDA undertake the myriad transactions and expenses necessary to obtain the infrastructure
5 and authorizations necessary to operate a unified water system serving the Tusayan area. (Ex.
6 TWDA-1 at 10-11.) This is why TWDA entered into the Agreement. (*Id.*)

7 Mr. Brainard testified that TWDA has performed all of its obligations under the Agreement
8 and, further, that TWDA is ready to transition its assets and operational books and records over to
9 Hydro, to zero out its accounts, and to conclude all of TWDA's remaining operations if a new CC&N
10 is issued to Hydro. (Tr. at 95-97.) TWDA does not have any large debts or long-term debts that
11 would remain outstanding, and TWDA is prepared to file a final sales tax return and a final income
12 tax return. (Tr. at 97.)

13 **VIII. Hydro CC&N Application**

14 A. CC&N Service Area

15 The legal description for Hydro's requested CC&N service area is attached hereto and
16 incorporated herein as Exhibit B. (*See* Ex. Hydro-6 at ex. L, ex. M.) Hydro's requested CC&N
17 service area is almost identical to that currently held by TWDA, which is included in an appendix to
18 the Agreement. However, Hydro has requested to exclude from its CC&N service area two small
19 parcels of land, noncontiguous to each other and to the rest of the requested CC&N service area. (*See*
20 Ex. S-3 at att. B; Tr. at 28.) A map showing the two parcels excluded from Hydro's requested CC&N
21 service area is attached hereto and incorporated herein as Exhibit C. (*See* Ex. S-3 at att. B.)

22 The two parcels are located on U.S. Forest Service land in the Kaibab National Forest; have
23 no customers, plant, or other property on site; and have never received water service through TWDA.
24 (*See* Tr. at 28-29.) Although it is somewhat unclear why the parcels were included in TWDA's
25 CC&N originally, the Applicants believe that the parcels were at one time subject to a special use
26 permit and considered for development as campgrounds and for other uses, although no such
27 development has ever occurred, and no special use permits are in place. (*See* Tr. at 28-29; Jt.
28

Statement.²⁹) The Applicants also assert that, to their knowledge, there are no current plans for development of the two parcels, now or in the future. (Jt. Statement.)

Although Hydro has not solicited or received any requests for water service, all of the customers of TWDA have requested membership in TWDA and will become customers of Hydro after TWDA is dissolved, as agreed by TWDA in the Agreement. (Ex. Hydro-6 at 7.) Currently, TWDA bills 41 customers (5 residential and 36 commercial) for usage through 94 metered connections, as a result of TWDA's practice of billing customers with multiple meters for the combined total usage through those meters rather than separately for each meter. (Ex. S-3 at att. A at 2.)

Wastewater service within the service area is provided by the South Grand Canyon Sanitary District.³⁰ (Ex. Hydro-6 at 8.) There is no other entity providing water or wastewater service within one mile of the service area. (*Id.*)

The Town does not impose any franchise requirement. (Ex. Hydro-6 at 11.) Additionally, the Town supports Hydro's CC&N application.

All of the roadways within the requested CC&N service area are owned either by the Arizona Department of Transportation ("ADOT") or private landowners. (Ex. Hydro-6 at 11.) Hydro has obtained ADOT's consent to the presence of its lines within ADOT's right of way and has received encroachment permits from ADOT. (*See* Ex. Hydro-6 at 11.) The service area does not include any State Trust Land or U.S. Forest Service land. (Ex. Hydro-6 at 11.)

The service area is not included within any Active Management Area. (Ex. Hydro-6 at 12.) Hydro stated the following regarding the adequacy of the water supply in the service area:

The Applicant has access to water from two wells, drilled in 1989 and 1994, which together have provided the majority of the water for the Tusayan community for the last twenty years. During that time, the water levels in the wells have not decreased and the Applicant has not needed to haul water.

The Applicant recently retained a licensed hydrologist, Ed Squires of Hydro Logic, Inc., who has prepared a report which is attached as Exhibit Z.5. Mr. Squires has determined that, at the present time, there is

²⁹ Official notice is taken of the Joint Statement Regarding Issues Raised by Isolated Tusayan CCN Areas Not Requested in Hydro's CCN Application, filed in this matter on March 11, 2014.

³⁰ The local wastewater service provider, South Grand Canyon Sanitary District, has provided a letter confirming that it provides wastewater service within Hydro's requested CC&N area. (Ex. Hydro-6 at ex. HH.)

insufficient information on water supplies in the Tusayan area. For that reason, Mr. Squires has proposed that the Applicant institute a monitoring and reporting plan in order to determine water supplies in the Tusayan area. The Applicant agrees and will undertake such a monitoring and reporting plan as outlined by Mr. Squires.

Institution of such a plan is a first step towards addressing the water supply concerns of the Commission and the Applicant such that Applicant will be in a position in the future to provide sufficient detail on the adequacy of the water supply.³¹

B. Hydro System

Hydro's water system facilities currently include one well, known as Tusayan #2, which is located on property owned by Hydro's owners and produces 63 gallons per minute ("GPM"); a 525,000-gallon storage tank; a diesel-powered fire pump and pump house; 11,800 linear feet of water transmission and distribution mains; and six fire hydrants. (Ex. Hydro-3 at 6-7.) Under a Water Sales Agreement with Squire, described below, Hydro also obtains water from a 60-GPM well owned by Squire, Squire #1, and leases 2.0 million gallons of water storage space in Squire's 3.0 million gallon storage tank located on U.S. Forest Service land. (*Id.* at 7.) Under the terms of the Transfer Agreement, Hydro is to obtain additional water mains to create a more complete water transmission and distribution system. (*Id.*)

The Hydro and Squire systems are interconnected; several hundred feet of large-diameter distribution line running through Squire's property and serving Squire are connected to Hydro's system.³² (*See* Tr. at 40-41, 46-47.) Hydro has purchased excess water from Squire pursuant to a Water System Agreement since July 2000 and entered into a more comprehensive Water Sales Agreement ("WSA") effective January 1, 2013. (Ex. Squire-1 at ex. A.) In the WSA, Squire agrees to provide Hydro with Squire's excess water—specifically described as that portion of water produced by Squire's well, plus the amount held in storage in Squire's tank, less the amount used by Squire for domestic, landscaping, and related incidental uses, including use by the Squire Inn and its guests—but in no event more than 12.5 million gallons per year. (Ex. Squire-1 at ex. A.) The WSA requires Hydro to pay Squire each month for the excess water obtained, at a rate of \$14.35 per

³¹ Ex. Hydro-6 at 12.

³² Aside from its storage tanks, which are located on a hill on leased U.S. Forest Service land, Squire's water system is located only on the property of the Squire Motor Inns. (Tr. at 40.)

1 thousand gallons.³³ (*Id.*) The WSA also provides that Hydro produces potable water and stores it in
 2 Squire's tank, and that to the extent Squire uses Hydro's stored water for Squire's purposes, Hydro
 3 shall deduct the amount of any such Squire usage from the total gallons of water sold to Hydro in any
 4 month for purposes of calculating the payment due to Squire. (*Id.*) Additionally, the WSA provides
 5 Hydro with full operational control of the Squire water facilities and makes Hydro responsible for
 6 maintaining the Squire water facilities in good working order, in return for which Squire is required
 7 to pay Hydro a base monthly fee of \$2,500. (*Id.*) The WSA also includes, *inter alia*, provisions that
 8 allow rate adjustments based on the Consumer Price Index and on increased electric bills. (*Id.*) The
 9 WSA does not provide Hydro with the right to purchase any particular minimum amount of water
 10 from Squire, and imposes an annual 12.5 million gallon cap on the amount of water Hydro can
 11 purchase from Squire, so that Squire can be assured a sufficient supply of water for its own uses. (Tr.
 12 at 43-44.) Mr. Rueter testified that, in spite of Hydro and Squire's common ownership, the WSA and
 13 its predecessor agreements define and control their relationship. (Tr. at 47-48.) Squire will not allow
 14 Hydro to acquire any of Squire's plant or property rights because Squire is concerned about
 15 preserving its own ability to supply water to its property. (See Tr. at 44-45, 53-55.) ADEQ currently
 16 considers the Hydro and Squire water systems to be one system, and there is no intention to change
 17 that at this time. (Tr. at 43.)

18 Staff determined that the Hydro water system, operating as a combined system, includes the
 19 two wells known as Tusayan #2 and Squire #1, deep wells with a combined capacity of 123 GPM;
 20 one 525,000-gallon storage tank owned by Hydro; 2 million gallons of storage space in Squire's 3
 21 million gallon storage tank; a diesel powered 2,500 GPM fire pump; a pump house; six fire hydrants;
 22 approximately 23,000 linear feet ("lf") of water distribution main, approximately 12,000 lf of which
 23 is owned by Hydro, and the rest owned by Squire or other private persons; and approximately 94
 24 service connections, including TWDA's customers and the ADOT Grand Canyon Airport. (Ex. S-3
 25 at att. A at 2-4.) Both storage tanks are located on a tank site, leased from the U.S. Forest Service by
 26 Squire, that is located approximately 0.2 miles southeast of the Town and has an elevation of 6,670

27 _____
 28 ³³ This is lower rate than the \$17.72 per thousand gallons rate included in the prior Water System Agreement. (See Ex. S-3 at att. A at 4.)

1 feet, approximately 130 feet higher than the elevation of the Town. (*Id.* at 3.) Because of the higher
 2 elevation, water flows from the storage tanks to the distribution system via gravity, and the system
 3 has no booster pumps. (*Id.*) The diesel-powered fire booster pump is available if the need for
 4 additional water pressure arises because of increased customer demand or fire flow; however, the
 5 pump is operated and controlled manually rather than automatically, as is more typical. (*Id.*) Staff
 6 expressed concern about the manual operations, as significant delay could occur in starting the fire
 7 pump in the event of a fire incident. (*Id.*)

8 The water from each well is disinfected using liquid sodium hypochlorite added into the
 9 discharge piping at the well head via chemical injection feed pumps. (*Id.*) Historically, the meters
 10 serving customers on the system have been purchased and maintained by the customers themselves.
 11 (Tr. at 104.)

12 For 2012, Hydro reported 6,255,957 gallons purchased, 23,369,508 gallons pumped, and
 13 28,258,697 gallons sold, which represents water loss of 4.6 percent, well within acceptable limits for
 14 water loss. (Ex. S-3 at att. A at 4.)

15 Staff determined that the Hydro water system has adequate production and storage capacity to
 16 serve the current customer base and allow for reasonable growth as long as both the Tusayan #2 well
 17 and Squire #1 well are operating. (Ex. S-3 at 9.)

18 C. Fitness & Properness to Obtain a CC&N; Technical Capabilities & Financial
 19 Resources

20 Hydro's CC&N application reports that Hydro is capitalized with 100 percent equity and that
 21 for 2012, it had total assets of \$583,833, total liabilities of \$44,376, total revenues of \$710,330, and
 22 operating income of \$167,682. (Hydro-6 at ex. R.) Mr. Rueter testified that he believes Hydro and
 23 its owners are quite financially capable. (Tr. at 39-40.)

24 Mr. Rueter³⁴ handles all of the administrative duties of operating Hydro, along with the daily
 25 operation and oversight of well production and the distribution and storage systems. (Tr. at 20.) Mr.
 26 Rueter has the following ADEQ certifications: Grade 4 Water Distribution System Operator, Grade 3

27
 28 ³⁴ Mr. Rueter has been Hydro's President and Certified Operator for more than 19 years. (Tr. at 20.)

1 Water Treatment Plant Operator, Grade 4 Wastewater Treatment Plant Operator, and Grade 4
2 Wastewater Collection System Operator. (Ex. S-3 at att. A at 2.) Hydro has two other employees
3 who assist Mr. Rueter with the daily maintenance of the system. (Tr. at 35-36.)

4 An ADEQ Drinking Water Compliance Status Report for Hydro, dated and obtained from
5 ADEQ on June 4, 2014, states that Hydro is delivering water that meets the water quality standards of
6 40 CFR 141 and 18 A.A.C. 4, has no major deficiencies of any kind, and is in compliance. (Tr. at
7 120-21; Ex. S-4.)

8 According to Staff, the Arizona Department of Water Resources ("ADWR") has determined
9 that Hydro's water system is currently in compliance with ADWR's requirements governing water
10 providers and/or community water systems.³⁵

11 Staff's Compliance Section reports that there are no trackable compliance items or
12 delinquencies for Hydro and that Hydro, thus, is considered to be in compliance. (Ex. S-3 at 10.)

13 Hydro is in good standing with the Commission's Corporations Division. (Ex. Hydro-6 at ex.
14 H2.)

15 Ms. Sears testified that Hydro is capable of providing service to the proposed CC&N area and
16 that, in her opinion, the Settlement Agreement is in the public interest. (Tr. at 126.)

17 As part of its CC&N application, Hydro submitted a proposed Cross-Connection or Backflow
18 Tariff and a proposed Curtailment Tariff. (Ex. Hydro-6 at ex. JJ, ex. KK.)

19 Hydro does not currently have a Best Management Practice ("BMP") tariff. (Ex. S-3 at 9.)
20 Hydro has asserted that it will work closely with the South Grand Canyon Sanitary District to
21 conserve water through cross-connections and reuse. (Ex. Hydro-6 at 19.) Hydro also asserted that
22 water conservation practices are used throughout Tusayan and that the Town Code even requires that
23 reclaimed water be used for irrigation and commercial toilet flushing. (Ex. Hydro-6 at 19.)

24 ...

25
26 ³⁵ Although no Analysis of Adequate Water Supply ("Water Report"), Analysis of Assured Water Supply ("AWS") or
27 Physical Availability Determination ("PAD") has been done for the service area, ADWR has stated that it will not require
28 Hydro to submit a Water Report or apply for a PAD at this time because the CC&N for the area already exists, and will
not require Hydro to obtain an AWS because Hydro's system is not located within an AMA. (Ex. S-3 at 9-10.) ADWR
has stated that it would like for Hydro to apply for a PAD once Hydro has collected one or two years of data from
Tusayan #2 and Squire #1 through its monitoring and reporting plan. (*Id.*)

1 D. Proposed Rates

2 Hydro originally proposed to have rates approved that would include monthly minimum
3 charges beginning at \$112.50 for 3/4" meters and increasing with meter size, along with a commodity
4 rate of \$19.00 per thousand gallons. (Ex. Hydro-6 at ex. R.) Hydro now proposes to have its current
5 rate, set at \$24.50 per thousand gallons for all usage, with no monthly minimum charges, retained
6 until new rates for Hydro are approved in the context of a full rate case. (Tr. at 27, 74.) Additionally,
7 Hydro proposes that the miscellaneous service charges and meter line and installation charges
8 proposed by Hydro in November 2013³⁶ also be approved herein, as Hydro has not established such
9 charges previously. (Tr. at 74-78.)

10 Mr. Bourassa, with input from Mr. Rueter and using a 2012 time frame and data from Hydro's
11 books and the books of Anasazi, determined that Hydro's rate base for its initial year as a CC&N
12 holder would be \$937,720. (See Tr. at 64-65; Ex. Hydro-6 at ex. R.) Mr. Bourassa opined that the
13 rate base figure for the initial year would be the most appropriate to adopt, as it is based upon known
14 and measurable data rather than projections.³⁷ (Tr. at 65-66.)

15 E. Staff's Recommendations

16 Staff recommends that Hydro's CC&N application be approved, subject to the following
17 conditions:

- 18 • Hydro shall file with Docket Control, as a compliance item in this Docket, within 90 days
19 after the effective date of a Decision in this proceeding, for Commission review and
20 consideration, at least three BMPs in the form of tariffs that substantially conform to the
21 templates created by Staff and available on the Commission's website at
22 <http://www.azcc.gov/Divisions/Utilities/forms.asp>, with no more than two of the BMPs
23 coming from the "Public Awareness/Public Relations" or "Education and Training"

25 ³⁶ Official notice was taken of Hydro's filing made on November 5, 2013, in which miscellaneous service charges and
26 service line and meter installation charges were proposed.

27 ³⁷ Although Mr. Bourassa mentioned that he would like to leave open the possibility for Hydro to seek an accounting
28 order as a placeholder for the costs Hydro was experiencing in this matter as a result of settlement negotiations and the
CC&N, he acknowledged that Hydro had not decided to request an accounting order. (*Id.* at 62.) To date, Hydro has not
made such a request. When asked about Mr. Bourassa's comment, Ms. Sears stated that Staff did not have a position on it
at that time and agreed that those expenses might best be dealt with in Hydro's rate case. (Tr. at 127.)

categories;³⁸

- Hydro shall notify the Director of the Utilities Division, through the Compliance Section, within 15 days of providing services to its first customers under the new CC&N;³⁹
- Hydro shall adopt the charges listed under Staff's Recommendation in Table B of the Engineering Report and shall adopt Individual Case Basis ("ICB") charges for meter sizes 8 inches and larger, with the charges set at cost;
- Hydro shall continue charging its current rates once the CC&N is granted;⁴⁰
- Hydro shall file a rate application no later than September 30, 2015, using a 2014 test year;
- Hydro shall adopt Staff's typical and customary depreciation rates, by account, as illustrated in Table A of the Engineering Report; and
- Hydro shall have an engineering review conducted to evaluate and determine the feasibility and cost for converting the fire pump from manual to automatic control.⁴¹

Staff further recommends approval of the Curtailment and Backflow Prevention Tariffs submitted by Hydro with its CC&N Application. (Ex. S-3 at 6.)

Staff originally also recommended that Hydro be required to file an updated ADEQ Compliance Status Report and that Hydro and Squire's Water System Agreement be amended or replaced with a new agreement to ensure Hydro's continued use of the 3 million gallon storage tank and that Squire would continue to produce and sell water to Hydro for an established period of time. (Ex. S-3 at 10-11.) Both of these Staff recommendations were resolved during the hearing. (Tr. at 120-23.)

Mr. Thompson testified that he had reviewed the WSA between Hydro and Squire and that, in his opinion, the WSA conformed to the recommendations made in Staff's Engineering Report, and the WSA is in the public interest. (Tr. at 123.) Ms. Sears also testified that Staff does not have any

³⁸ Ms. Sears confirmed that Staff continues to recommend that Hydro be required to file BMP tariffs. (Tr. at 128.)

³⁹ Ms. Sears stated that this should be interpreted to require Hydro to give notice when it has begun serving the former Anasazi system customers, with Wendy's being the only customer outstanding as of the hearing. (See Tr. at 128-29.)

⁴⁰ Ms. Sears stated that Staff agrees with the proposed miscellaneous service charges and service line and meter installation charges proposed by Hydro. (See Tr. at 127.)

⁴¹ Ex. S-3 at 6-7, 10-11.

1 objection to the WSA. (Tr. at 130.) In light of the history of the Tusayan area and the ownership of
2 land, Staff is not concerned about Hydro's not owning the property upon which its well and its tank
3 are located.⁴² (Tr. at 131-32.)

4 Regarding the timing of Hydro's rate case application, Ms. Sears explained that Staff believes
5 the unusual nature of this matter, with customers already being served by Hydro and paying rates,
6 and data already existing, makes it appropriate for Hydro's rate case to take place sooner rather than
7 later. (Tr. at 129-30.) Staff did not, however, identify any harm that it believes would result from
8 waiting to have the rate case application filed after Hydro has operated for a 12-month period under a
9 CC&N. (See Tr. at 129-30.)

10 F. Hydro's Responses to Staff's Recommendations

11 Hydro is amenable to all of Staff's current recommendations in this matter, including the
12 conditions recommended for the CC&N. (Tr. at 34.) Hydro expressly confirmed that it is in
13 agreement with the recommendation to file three BMP tariffs. (Tr. at 45.) Hydro has arranged to
14 have Mr. Brainard come work for Hydro once a CC&N is issued, so that the transition for customer
15 billing and accounts should be very smooth. (Tr. at 34-35.) Mr. Rueter indicated that he has had a
16 longstanding positive working relationship with Mr. Brainard. (Tr. at 36-37.) Mr. Brainard also
17 confirmed that he has agreed to "swap hats" and continue preparing monthly bills for Hydro if the
18 Commission cancels TWDA's CC&N and grants Hydro a CC&N. (Tr. at 95.)

19 Mr. Bourassa agreed with Staff both that no actual audit of Hydro's revenue- and expense-
20 related data had been completed by Staff in the context of this matter and, further, that it is most
21 appropriate in this matter to allow for the current Hydro rate to be used until rates can be established
22 in a full rate case. (Tr. at 66-68.) Mr. Bourassa suggested, however, that Hydro be permitted to base
23 its test year on a full 12 months of operating data, after receipt of a CC&N, and be required to file its
24 rate case application within 120 days after the end of the 12-month operating period. (*Id.* at 60, 69.)
25 Mr. Bourassa also emphasized that any test year should include actual operating data for the summer

26 _____
27 ⁴² Hydro's well and tank are not located on land owned by Hydro because there is very little private land available in
28 the Tusayan area, and there is none with an elevation capable of supplying gravity pressure. (Tr. at 45-46.) Hydro asserts
that the land used by Hydro results in the most economic and most dependable means of running the system, because it
allows the use of gravity. (Tr. at 46.)

1 months, because that is the season during which more water is used because of increased tourism at
 2 the Grand Canyon. (Tr. at 61.) In Mr. Bourassa's opinion, using less than a full 12 months of
 3 operating data under the CC&N could necessitate obtaining all of Anasazi and TWDA's historical
 4 records, which would require a great deal of additional effort, and would result in the need to make
 5 far more assumptions and adjustments than would a full test year of operating data. (Tr. at 69-70.)
 6 Mr. Bourassa pointed out that even if the Commission were to require Hydro to file a rate case
 7 application later than Staff recommended, so that the application would use data from a full test year
 8 of operations under the new CC&N, this would still be much earlier than the more typical time frame
 9 of approximately five years for a new CC&N holder's first rate case application to be filed. (See Tr.
 10 at 71.)

11 Also, although Mr. Bourassa had not reviewed Hydro's books thoroughly as would be done
 12 for a rate case, he had formed the opinion that they are not currently being kept in accordance with
 13 National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of
 14 Accounts ("USOA") requirements, but would not be difficult to convert into the NARUC USOA for
 15 purposes of a rate case. (Tr. at 72-73.) Mr. Bourassa opined that the "major obstacle" if a full test
 16 year of operations is not allowed would be getting a handle on Hydro's annual revenues and expenses
 17 for a full 12 months, using information pieced together from Hydro's data, TWDA's data, and
 18 Anasazi's data. (See Tr. at 73.)

19 **IX. Resolution**

20 As aptly observed at hearing, this matter has traveled a "long and winding road."⁴³ In the
 21 early days of this matter, before the Agreement was signed, and before the CC&N-related
 22 applications were filed, this matter was poised to be contentious. The residents of Tusayan had long
 23 been receiving water service from two different water systems (Hydro and Anasazi), at two vastly
 24 different rates, although they were all being billed by the same entity (TWDA). The billing entity
 25 held the CC&N but had no ownership of or control over either water system and also had no
 26 Commission-approved tariffs. Staff was the impetus for this matter, as it had first requested that the
 27

28 ⁴³ Tr. at 15.

1 CC&N holder file a rate case application and, subsequently, requested that each entity owning and
2 operating a water system apply for a CC&N or, in the alternative, for adjudication “not a public
3 service corporation,” informing each that, otherwise, Staff might issue a complaint to initiate an order
4 to show cause proceeding so that the Commission could exercise its regulatory authority over
5 whichever entity or entities proved to meet the definition for a “public service corporation.” A
6 landowner/developer (T Ventures) became involved to protect its own interests. The fledgling Town
7 became involved because it was considering the formation of a municipal water utility to serve its
8 residents. A little later, an affiliate of Hydro (Squire) became involved because of its ownership and
9 business interests and its own involvement in the provision of water service in the area. This matter
10 could have been marked by hostility and turf battles. Instead, the parties entered into negotiations
11 that ultimately culminated in the execution of the Agreement and, subsequently, TWDA’s
12 Application for Cancellation of its CC&N and Hydro’s Application for a CC&N.

13 The Agreement entered into by the parties to this matter is designed to enable the creation, for
14 the Tusayan area, of a single water utility that will charge Commission-approved rates and that will
15 be subject to the Commission’s regulatory jurisdiction in a more meaningful manner than a water
16 utility that lacks any water utility infrastructure can be. The Agreement represents clear and
17 significant compromise by some parties—most notably the Applicants, all of which will see a
18 fundamental change in their operations to allow for the unification of water utility operations, if the
19 Agreement is approved. The Commission is aware that the parties have devoted many hours and
20 months to the formation of the Agreement, and the other associated agreements not before the
21 Commission, and appreciates all of the parties’ efforts in this regard.

22 As is acknowledged in the Agreement, the Commission is not bound by the terms of the
23 Agreement and must independently consider and evaluate the terms of the Agreement to ensure that
24 they are in the public interest. Based on consideration of the complete evidentiary record in this
25 proceeding, and in consideration of the level of compromise exhibited by the Applicants and the
26 benefits that will clearly result to the residents and businesses of Tusayan (a number of whom have
27 already begun receiving the benefits of a lower rate) and to the Town itself, we find that the
28 Agreement overall is in the public interest and should be approved. In determining that the

1 Agreement is in the public interest, we have considered the parties' testimony supporting the
2 Agreement, the consistency and stability that will result from the Agreement, and the aforementioned
3 benefits to be gained by the businesses and residents of Tusayan as well as the Town itself. We also
4 recognize that the Commission itself will benefit from having a single entity become both the CC&N
5 holder and the public service corporation for the Tusayan area and also from the efficient resolution
6 of the myriad issues represented in this matter without extended and contentious litigation.

7 Although we believe that the Agreement, as a whole, is in the public interest and should be
8 approved, there is one provision of the Agreement for which the public interest will be best served by
9 modification, and we will make such modification herein. This modification, although substantive in
10 nature, is intended to update the Agreement consistent with Hydro's CC&N application. Although §
11 2.2 of the Agreement states that Hydro's CC&N application would seek "a new CC&N covering the
12 same area" as TWDA's CC&N, Hydro's requested CC&N service area is not identical to TWDA's
13 certificated area as reflected in Exhibit A to the Agreement. The Commission thus modifies § 2.2 of
14 the Agreement to acknowledge that the legal description of Hydro's requested CC&N service area,
15 attached hereto as Exhibit B, differs from TWDA's certificated area because it excludes the two
16 noncontiguous parcels discussed above for which service has never been provided and a need for
17 service is not foreseen. With that modification, the Agreement will be approved.

18 We also find that Staff's current recommendations set forth herein are reasonable and
19 appropriate and should be adopted, with the only modification being in the timing of Hydro's rate
20 case application filing and test year. While the Commission does on occasion permit a permanent
21 rate case application to be filed based upon a partial year of actual operating data along with
22 projections as to the operating data for the remainder of the year, it is preferable and should be more
23 efficient to receive a full 12 months of actual operating data, so that the Commission may make its
24 determinations based upon the best and most current data available. As Hydro pointed out, the
25 Commission generally does not require the holder of a new CC&N to file a rate case application for
26 several years. Although Hydro has been operating a water system for a number of years, its taking on
27 of additional plant, duties, and customers will almost certainly result in unanticipated changes in its
28 operations that are more likely to be revealed and can better be addressed in Hydro's rate case

1 application if Hydro is able to collect actual operating data for a full test year. Thus, we will adopt
2 Hydro's request for the rate application deadline to be set 120 days after the one year anniversary of
3 the effective date of the Commission's Decision in this matter. Additionally, we will require that
4 Hydro use a test year beginning on the first day of the month after the effective date of the Decision
5 issued in this matter and ending 12 months later.

6 * * * * *

7 Having considered the entire record herein and being fully advised in the premises, the
8 Commission finds, concludes, and orders that:

9 **FINDINGS OF FACT**

10 1. TWDA is a not-for-profit Arizona corporation formed in September 1978 for the
11 purpose of obtaining a CC&N to supply the Tusayan area with water TWDA would purchase from
12 the National Park Service.

13 2. The Commission granted TWDA a CC&N in Decision No. 50492 (December 13,
14 1979).

15 3. Anasazi is a member-managed Arizona limited liability company formed in 1996 by
16 the heirs and assigns of the owner of the Red Feather Lodge and other properties in the Tusayan area.

17 4. Anasazi owns and operates a water system that serves a portion of the Tusayan area
18 included within TWDA's CC&N service area.

19 5. Hydro is an Arizona S corporation formed in 1994 for the purpose of exploring and
20 securing additional water resources for private businesses owned or operated in Tusayan by Hydro's
21 owners.

22 6. Hydro owns and operates a water system that serves a portion of the Tusayan area
23 included within TWDA's CC&N service area.

24 7. TWDA does not now and never has owned any of the physical plant necessary to
25 operate a water system, has never filed a rate tariff with the Commission, and before 2010 had never
26 filed a rate case application with the Commission.

27 8. For approximately the last 15 to 20 years, TWDA has been billing customers in its
28 CC&N service area for water provided through the water systems owned and operated separately by

1 Hydro and Anasazi, with each customer billed either the Hydro rate or the Anasazi rate based upon
2 the location of the customer's property and which water system served the customer's property.

3 9. TWDA, Anasazi, and Hydro considered TWDA to be a public service corporation
4 purchasing water wholesale from Anasazi and Hydro, and considered Anasazi and Hydro to be
5 wholesalers and not public service corporations.

6 10. On April 29, 2010, after being contacted by Staff, TWDA filed a permanent rate
7 application in the TWDA Rate Docket.

8 11. In July 2010, the Commission's Legal Division issued letters to both Hydro and
9 Anasazi, requesting on behalf of Staff that each either file an application for a CC&N or file a request
10 to be adjudicated "not a public service corporation."

11 12. On October 21, 2010, Anasazi filed an application for adjudication "not a public
12 service corporation" in the Anasazi Adjudication Docket.

13 13. On November 19, 2010, Hydro filed an application for adjudication "not a public
14 service corporation" in the Hydro Adjudication Docket.

15 14. On January 18, 2011, the TWDA Rate Docket, the Anasazi Adjudication Docket, and
16 the Hydro Adjudication Docket were consolidated into the Adjudication Dockets, and the process and
17 time frame for TWDA's rate application were suspended.

18 15. At a procedural conference held on February 7, 2011, TWDA agreed to have its rate
19 application deemed amended to include an application for adjudication of TWDA's status as a public
20 service corporation.

21 16. On April 20, 2011, a Procedural Order was issued scheduling a hearing for the
22 Adjudication Dockets to commence on September 9, 2011, and establishing other procedural
23 requirements and deadlines.

24 17. In April and May 2011, notice of the hearing scheduled for the Adjudication Dockets
25 was mailed to all affected property owners and published in the *Williams-Grand Canyon News*.

26 18. T Ventures is a developer owning land in the Tusayan area. T Ventures applied for
27 and was granted intervention in this matter, but subsequently was permitted to withdraw as an
28 Intervenor.

1 19. The Town is a municipal corporation formed in 2010.

2 20. Squire is a Washington corporation formed in 1997, under common ownership with
3 Hydro, and owning a portion of the water system operated by Hydro.

4 21. The Town and Squire were granted intervention in this matter.

5 22. On or around August 13, 2013, TWDA, Anasazi, Hydro, the Town, Squire, and Staff
6 executed an Agreement, attached hereto and incorporated herein as Exhibit A, to resolve the
7 contested issues within this matter.

8 23. The Agreement, coupled with a separate Transfer Agreement, is designed to result in
9 creation of a single unified water system to serve the Tusayan area by having TWDA obtain CC&N
10 cancellation; Hydro obtain a CC&N; and the parties and their affiliates effect and facilitate transfers
11 of property and rights as necessary to enable Hydro to have an adequate and reliable supply of water
12 and a complete distribution system to provide water as the CC&N holder in the Tusayan area. The
13 Agreement references and describes the pertinent parts of the separate Transfer Agreement entered
14 into by Anasazi, Hydro, and TWDA, but the Transfer Agreement itself is not before the Commission
15 for consideration and approval.

16 24. On September 12, 2013, Hydro filed a CC&N application in the Hydro CC&N
17 Docket, and TWDA filed an application for CC&N cancellation in the TWDA Cancellation Docket.

18 25. The TWDA Cancellation Docket and the Hydro CC&N Docket were consolidated
19 with the Adjudication Dockets on September 25, 2013, creating this matter.

20 26. Staff determined TWDA's application for CC&N cancellation to be sufficient on
21 October 11, 2013, and determined Hydro's CC&N application to be sufficient on December 16,
22 2013.

23 27. On February 4, 2014, a Procedural Order was issued scheduling the hearing in this
24 matter to commence on June 4, 2014, and establishing other procedural requirements and deadlines.
25 The Procedural Order also suspended the time frames for Hydro's CC&N application and TWDA's
26 application for CC&N cancellation.

27 28. In February 2014, notice of this matter was sent to TWDA's customers and to other
28 property owners in the area; was posted at the General Store in Tusayan, at the Tusayan Town Hall,

1 and on the Town's website; and was published in the *Williams-Grand Canyon News*.

2 29. On June 4, 2014, a full evidentiary hearing for this matter was held as scheduled
3 before a duly authorized Administrative Law Judge of the Commission at the Commission's offices
4 in Phoenix, with all parties appearing through counsel. No members of the public attended to provide
5 comment.

6 30. The complete procedural history for this matter is as described in the Discussion
7 Section of this Decision.

8 31. TWDA's rate application and its deemed application for adjudication of status as a
9 public service corporation have both been rendered moot by TWDA's application for cancellation of
10 its CC&N, coupled with its stated intention of ceasing operations.

11 32. It is reasonable and appropriate to dismiss TWDA's rate application, including its
12 deemed application for adjudication of status as a public service corporation, and to close the TWDA
13 Rate Docket.

14 33. As of the hearing in this matter, all but one of the customers recently served by
15 Anasazi's water system had been transitioned to Hydro's water system and to the associated Hydro
16 rate, with that customer's transition expected to occur by approximately September 4, 2014.

17 34. Anasazi's application for adjudication "not a public service corporation" has been
18 rendered moot by Anasazi's agreement to wind down its operations and terminate its existence upon
19 completion of its tasks under the Agreement and Transfer Agreement, coupled with the actions
20 already taken by Anasazi toward that end.

21 35. It is reasonable and appropriate to dismiss Anasazi's application for adjudication "not
22 a public service corporation" and to close the Anasazi Adjudication Docket.

23 36. Hydro's application for adjudication "not a public service corporation" has been
24 rendered moot by Hydro's application for a CC&N.

25 37. It is reasonable and appropriate to dismiss Hydro's application for adjudication "not a
26 public service corporation" and to close the Hydro Adjudication Docket.

27 ...

28 ...

1 38. Hydro is a fit and proper entity to obtain a CC&N to serve as the water utility for the
2 Tusayan area, the legal description of which is set forth in Exhibit B, attached hereto and
3 incorporated herein.

4 39. Hydro has the technical knowledge and capabilities and the financial resources to
5 provide service as the water utility for the Tusayan area.

6 40. It is just and reasonable and in the public interest to allow Hydro to continue charging
7 the current Hydro rate of \$24.50 per thousand gallons for all usage, with no monthly minimum
8 charges, until Hydro's rates are established by the Commission in a full permanent rate case.

9 41. It is just and reasonable and in the public interest to authorize Hydro to implement the
10 miscellaneous service charges and service line and meter installation charges set forth in Exhibit D
11 attached hereto, which is incorporated herein.

12 42. It is just and reasonable and in the public interest to modify § 2.2 of the Agreement to
13 acknowledge that the legal description of Hydro's requested CC&N service area, attached hereto as
14 Exhibit B, differs from TWDA's certificated area in that Hydro's requested CC&N service area
15 excludes the two noncontiguous parcels discussed above for which service has never been provided
16 and a need for service is not foreseen.

17 43. The modification of § 2.2 described in Findings of Fact No. 42 is not intended to be,
18 and should not be interpreted by any party to be, a material change in the terms of the Agreement.

19 44. Considering the totality of the circumstances and for the reasons described in the
20 Discussion portion of this Decision, the Agreement, as a whole, is in the public interest and should be
21 approved, with the modification to § 2.2 described in Findings of Fact No. 42.

22 45. Staff currently recommends that Hydro be required to file a rate application no later
23 than September 30, 2015, using a 2014 test year. We find, for the reasons described in the
24 Discussion portion of this Decision, that it is the public interest instead to require Hydro to file a rate
25 application within 120 days after the one year anniversary of the effective date of this Decision and to
26 require Hydro to use a test year beginning on the first day of the month after the effective date of this
27 Decision and ending on the date 12 months thereafter.

28 ...

46. Staff's current recommendations, as described in the Discussion portion of this Decision, and with the modification set forth in Findings of Fact No. 45, are reasonable and appropriate and should be adopted.

CONCLUSIONS OF LAW

1. TWDA currently holds a CC&N issued by the Commission and has applied in this matter both for the establishment of rates and to have its CC&N canceled.

2. The Commission has jurisdiction over TWDA and the subject matter of its two applications filed herein.

3. Anasazi has applied in this matter for an adjudication that it is “not a public service corporation.”

4. The Commission has jurisdiction over Anasazi and the subject matter of its application.

5. Hydro has applied in this matter both for an adjudication that it is “not a public service corporation” and for a CC&N to include the service area for which the legal description is set forth in Exhibit B hereto.

6. The Commission has jurisdiction over Hydro and the subject matter of its two applications filed herein.

7. Notice of this matter was provided in accordance with the law.

8. It is just and reasonable and in the public interest to cancel TWDA's CC&N as requested.

9. It is just and reasonable and in the public interest to grant Hydro a CC&N to serve as the water utility for the service area for which the legal description is set forth in Exhibit B hereto.

10. The applications pending in the Adjudication Dockets have all been rendered moot, and it is just and reasonable and in the public interest to dismiss those applications and close the Adjudication Dockets.

11. Adoption of the Agreement, as modified herein, is just and reasonable and in the public interest.

...

12. The Commission's modification to § 2.2 of the Agreement is not intended to be and is not a material change to the Agreement.

13. It is just and reasonable and in the public interest to adopt Staff's current recommendations made herein, with the modification described in Findings of Fact No. 45.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement filed in this matter on August 13, 2013, and attached to this Decision as Exhibit A, is hereby approved with the modification to § 2.2 discussed herein.

IT IS FURTHER ORDERED that the Certificate of Convenience and Necessity granted to Tusayan Water Development Association, Inc. in Decision No. 50492 (December 13, 1979) is hereby canceled.

IT IS FURTHER ORDERED that Hydro-Resources, Inc. is hereby granted a Certificate of Convenience and Necessity to provide water utility services in the service area legally described in Exhibit B, attached hereto and incorporated herein.

IT IS FURTHER ORDERED that the effective date of this Decision shall serve as both the cancellation date for the Certificate of Convenience and Necessity held by Tusayan Water Development Association, Inc. and the effective date for the new Certificate of Convenience and Necessity granted to Hydro-Resources, Inc. herein.

IT IS FURTHER ORDERED that Hydro-Resources, Inc. is hereby authorized to charge for water utility service within its service area the rate of \$24.50 per 1,000 gallons, for all usage and all meter sizes, until further Order of the Commission.

IT IS FURTHER ORDERED that Hydro-Resources, Inc. is hereby authorized to charge within its service area, as applicable, the miscellaneous service charges and service line and meter installation charges set forth in Exhibit D, attached hereto and incorporated herein.

IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall, within 30 days after the effective date of this Decision, file with the Commission's Docket Control, as a compliance item in this Docket, a schedule of the rates and charges for its service area consistent with this Decision.

• • •

1 IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall, within 90 days after the
2 effective date of a Decision in this proceeding, as a compliance item in this Docket, file with the
3 Commission's Docket Control, for Commission review and consideration, at least three Best
4 Management Practices, in the form of tariffs that substantially conform to the templates created by
5 Staff and available on the Commission's website at
6 <http://www.azcc.gov/Divisions/Utilities/forms.asp>, with no more than two of the Best Management
7 Practices coming from the "Public Awareness/Public Relations" or "Education and Training"
8 categories.

9 IT IS FURTHER ORDERED that the applications pending in Docket Numbers W-02350A-
10 10-0163, W-20765A-10-0432, and W-20770A-10-0473 are hereby dismissed as moot.

11 IT IS FURTHER ORDERED that Docket Numbers W-02350A-10-0163, W-20765A-10-
12 0432, and W-20770A-10-0473 are hereby closed.

13 IT IS FURTHER ORDERED that the Settlement Agreement, attached hereto and
14 incorporated herein as Exhibit A, with the modification to § 2.2 described in Findings of Fact No. 42,
15 is hereby approved.

16 IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall notify the Director of the
17 Commission's Utilities Division, through the Compliance Section, within 15 days after completing
18 the transition to Hydro-Resources, Inc.'s water system of the final customer previously connected to
19 the water system of Anasazi Water Co., LLC.

20 IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall, within 120 days after the one
21 year anniversary of the effective date of this Decision, file with the Commission, in a new Docket, a
22 rate application using a test year beginning on the first day of the month after the effective date of this
23 Decision and ending on the date 12 months thereafter.

24 IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall, upon the filing of its rate
25 application in a new Docket, file with the Commission, as a compliance item in this Docket, a notice
26 that the rate application has been filed as required herein.

27 IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall adopt Staff's typical and
28 customary depreciation rates, by account, as illustrated in Table A of the Engineering Report.

IT IS FURTHER ORDERED that Hydro-Resources, Inc. shall have an engineering review conducted to evaluate and determine the feasibility and cost for converting its fire pump from manual to automatic control.

IT IS FURTHER ORDERED that the proposed Curtailment and Backflow Prevention Tariffs submitted by Hydro-Resources, Inc. with its Application for a Certificate of Convenience and Necessity are hereby approved.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

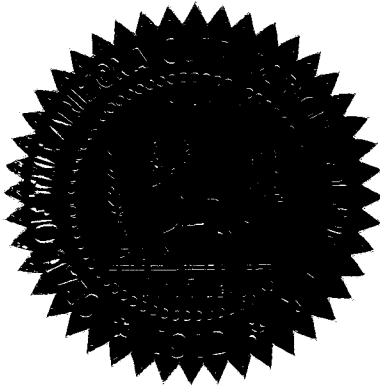
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 15th day of September 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
SH:tv

1 SERVICE LIST FOR:

TUSAYAN WATER DEVELOPMENT
ASSOCIATION, INC.; ANASAZI WATER CO., LLC;
HYDRO-RESOURCES, INC.

3 DOCKET NOS.:

W-02350A-10-0163, W-20765A-10-0432, W-20770A-
10-0473, W-02350A-13-0312, AND W-20770A-13-
0313

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EXHIBIT A

BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

RECEIVED

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

2013 AUG 13 A 11:50

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
TUSAYAN WATER DEVELOPMENT
ASSOCIATION, INC. FOR ESTABLISHMENT
OF RATES FOR WATER SERVICE.

DOCKET NO. W-02350A-10-0163

IN THE MATTER OF THE APPLICATION OF
ANASAZI WATER CO., LLC FOR
ADJUDICATION "NOT A PUBLIC SERVICE
CORPORATION."

DOCKET NO. W-20765A-10-0432


IN THE MATTER OF THE APPLICATION OF
HYDRO-RESOURCES, INC. FOR
ADJUDICATION "NOT A PUBLIC SERVICE
CORPORATION."

DOCKET NO. W-20770A-10-0473

STAFF'S NOTICE OF FILING

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), on behalf of the Signatories to the Proposed Settlement Agreement ("Agreement"), files the Agreement in the above-referenced matter.

RESPECTFULLY SUBMITTED this 13th day of August, 2013.


Robin K. Mitchell, Staff Attorney
Wesley C. Van Cleve, Staff Attorney
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing were filed this
13 day of August, 2013 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

AUG 13 2013

DOCKETED BY

nr

DECISION NO. 74742

Copies of the foregoing were mailed and/or
emailed this 13th day of August, 2013, to:

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Monica A. Marty

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into as of the __ day of August 2013 by, between and among Tusayan Water Development Association, Inc. ("TWDA"), Anasazi Water Company LLC ("Anasazi"), Hydro-Resources, Inc., ("Hydro"), Arizona Corporation Commission Utilities Division ("Staff"), Town of Tusayan, Arizona ("Town"), and Squire Motor Inns, Inc. ("Squire"). TWDA, Anasazi and Hydro may be referred to collectively as "Applicants." The Town and Squire may be referred to collectively as "Settling Intervenors." Staff, Applicants and Settling Intervenors may be referred to individually as a "Party" or collectively as "Parties."

RECITALS

On April 29, 2010, TWDA, which holds the Certificate of Convenience and Necessity ("CC&N"),¹ filed with the Arizona Corporation Commission ("Commission" or "ACC"), in Docket No. W-02350A-10-0163 ("Tusayan Docket"), a rate application, which has been suspended by Procedural Order dated January 18, 2011; and

In response to a letter from Staff dated July 21, 2010, on October 21, 2010, Anasazi, which provides water on a wholesale basis to TWDA through Anasazi's water distribution system, filed an Application to be adjudicated "Not A Public Service Corporation" in Docket No. W-20765A-10-0432 ("Anasazi Docket"); and

In response to a letter from Staff dated July 21, 2010, on November 1, 2010, Hydro, which provides water on a wholesale basis to TWDA through Hydro's water distribution system, filed an Application for a Determination that it is not acting as a Public Service Corporation in Docket No. W-20770A-10-0437 ("Hydro Docket"); and

On January 18, 2011, a Procedural Order was issued consolidating the three dockets (i.e. the Tusayan Docket, the Anasazi Docket and the Hydro Docket) which dockets may be referred to collectively as the "ACC Adjudication";² and

Tusayan Ventures, LLC, the Town and Squire have all been granted leave to intervene in the ACC Adjudication, however, Tusayan Ventures LLC has decided not to participate in this Settlement; and

Anasazi, Hydro and TWDA, have agreed to the terms and conditions of Anasazi's conveyance to Hydro of certain physical plant and property, and other miscellaneous equipment, and for cancellation of TWDA's CC&N and Hydro's application

¹ On March 28, 1979, the Arizona Corporation Commission issued Decision No. 49808 in Docket U-2350 with a legal description of the certificated area for the CC&N. That Decision was later re-affirmed in Decision No. 50492, issued on December 13, 1979. A copy of the legal description of the certificated area is attached to this Agreement as Exhibit A ("Certificated Area").

² During the Procedural Conference of February 7, 2011, TWDA stated it had no objection to being adjudicated in this proceeding.

for a CC&N covering the same Certificated Area, pursuant to a separate agreement of even date herewith ("Transfer Agreement");

NOW, THEREFORE, in consideration of the mutual covenants and conditions contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **PURPOSE.** The purpose of this Agreement is to resolve contested matters in Docket Nos. W-02350A-10-0163, W-20765A-10-0432 and W-20770A-10-0437 in a manner consistent with the public interest. The Parties further recognize that: (a) this Agreement acts as a procedural device to propose the Parties' settlement terms to the Commission; and (b) this Agreement has no binding force or effect until finally approved by an Order of the Commission. Nothing contained in this Agreement is an admission by any Party that any of the positions taken, or that might be taken by each Party in the ACC Adjudication, is unreasonable or unlawful, and the terms and conditions of this Agreement are in compromise of disputed claims and constitute compromise settlement positions. In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any Party in the ACC Adjudication.

2. **ANASAZI, HYDRO AND TWDA ACTIONS.** By a separate Transfer Agreement of even date herewith ("Transfer Agreement"), Anasazi, Hydro and TWDA have agreed, in pertinent part, that:

2.1 Anasazi will (a) transfer to Hydro certain physical plant and property, including water distribution lines and meters, and the easements and rights-of-way associated with those items that are within Anasazi's control; (b) assist Hydro in obtaining certain easements outside of Anasazi's control which are necessary for Hydro to serve those parcels previously served by Anasazi which are east of Route 64 ("Anasazi Serviced Parcels"); and (c) dissolve, wind up and terminate its existence.

2.2 Within thirty days of the execution of this Agreement, TWDA will apply for deletion/cancellation of its CC&N and Hydro will simultaneously file an application seeking a new CC&N covering the same area and providing for service to TWDA's existing customers in the Certificated Area except for the property owned by Red Feather Properties Limited Partnership, which property is commonly known as Coconino County Assessor parcel numbers 502-17-007L and 502-17-009B ("RFP Campus"), for which the property owners shall provide their own service and shall not receive service from Hydro.

2.3 Hydro will (a) acquire from Anasazi the physical plant and property, and property rights, described in section 2.1 above, (b) provide water service to the various properties currently served by TWDA in the Tusayan area except for the RFP Campus, and (c) transfer to Red Feather Properties Limited Partnership the water distribution lines and fire hydrants located on the Red Feather Properties Limited Partnership property, all in accordance with the terms of the Transfer Agreement.

2.4 The Parties shall immediately commence and diligently proceed to effect the conveyances summarized in sections 2.1 and 2.3 above, but in any event such conveyances shall occur no later than ten (10) days following the date at which the Commission's Decision and Order approving this Agreement and deleting TWDA's CC&N and providing for a new CC&N to Hydro as set forth in section 2.2 above becomes final and non-appealable ("Transfer Date"). Additionally, until the consummation of the conveyances or Commission action, whichever first occurs, Anasazi shall provide the Parties with monthly updates as to the status of the conveyances.

3. SQUIRE AND HYDRO ACTIONS. Prior to the Transfer Date, Squire and Hydro shall enter into a new contract or amend their existing water supply contract to ensure that Squire is a private, stand-alone point of service, selling water to Hydro under said contract.

4. CONTINUED ACC ADJUDICATION PROCEEDINGS.

4.1 The ACC Adjudication and all proceedings related thereto shall be continued until the Commission approves a new CC&N for Hydro and deletes/cancels the CC&N for TWDA.

4.2 In the event the Commission fails to approve this Agreement and issue an Order deleting TWDA's CC&N and providing for a new CC&N to Hydro as set forth in section 2.2 above, this Agreement shall be deemed terminated and the ACC Adjudication shall thereafter resume. In the event the Commission issues an Order deleting TWDA's CC&N and providing for a new CC&N to Hydro but fails to approve all terms of this Agreement without material change, this Agreement shall be deemed terminated and the ACC Adjudication shall thereafter resume and any CC&N granted shall be null and void after due process.

5. SETTLEMENT. The Parties shall proceed with the settlement of the ACC Adjudication as follows:

5.1 TWDA shall file a request to delete/cancel its CC&N and Hydro shall simultaneously file an application for a new Certificate of Convenience and Necessity ("New CC&N") covering the same area as the Certificated Area within the time frames set forth in section 2.2, above.

5.2 Upon filing their respective CC&N requests, the Parties shall also file a request that the dockets associated with the ACC Adjudication be closed and dismissed as moot upon the issuance of an Order by the Commission granting the New CC&N to Hydro and deleting or cancelling the CC&N of TWDA.

5.3 Each Party shall execute and deliver to the other Party and the Commission such documents and perform such acts as reasonably requested by any other Party or required to obtain the Order of the Commission that the ACC Adjudication be closed and dismissed.

5.4 Until the Commission has granted TWDA's request to cancel its CC&N and granted the New CC&N to Hydro, Hydro and Anasazi will continue to supply water to

TWDA and TWDA will continue to provide water service in the Certificated Area. Nothing herein shall preclude Hydro from supplying water to TWDA for TWDA's use in serving the Anasazi Serviced Parcels at Hydro rates upon Anasazi's transfer of the property described in section 2.1 above.

5.5 Until the Commission grants the New CC&N to Hydro, which Decision is anticipated to provide a Fair Value Rate Base and rates for the New CC&N area, TWDA shall continue to charge its current rates unless such rates are revised by agreement of the Parties and approved by the Commission. Upon Anasazi's transfer of the property described in section 2.1 above and Hydro thereafter supplying water to TWDA so that TWDA may serve the Anasazi Serviced Parcels, TWDA shall charge such customers the Hydro rates.

6. COMMISSION EVALUATION OF AGREEMENT.

6.1 **Staff Authority.** The Parties recognize that (a) the Staff does not have the power to bind the Commission; and (b) for the purposes of settlement, the Staff acts in the same manner as a Party in proceedings before the Commission.

6.2 **Commission Authority to Modify.** Each provision of this Agreement is in consideration and support of all other provisions, and expressly conditioned upon acceptance by the Commission without material change; provided, however, that the Parties further recognize that the Commission will evaluate the terms of this Agreement, and that after such evaluation the Commission may require immaterial modifications to any of the terms hereof before accepting this agreement.

6.3 **Commission Approval.** In the event that the Commission adopts an Order approving all of the terms of this Agreement without material change, such action by the Commission constitutes approval of the Agreement, and thereafter the Parties shall abide by its terms.

6.4 **Effect of Modification by the Commission.** In the event that any Party objects to any modification to the terms of this Agreement made by the Commission in an Order approving this Agreement, such Party shall timely file an Application for Rehearing under A.R.S. § 40-253. In the event that a Party does not file such an application, that Party shall be deemed (a) to have accepted any modifications made by the Commission; and (b) to have conclusively and irrefutably accepted that any modifications to terms of this Agreement were not material and therefore that the Commission Order adopted the terms of this Agreement without material change.

6.5 **Application for Rehearing.** If any Party to this Agreement files an Application for Rehearing and alleges that the Commission has failed to approve all terms of the Agreement without material change, then such application shall be deemed a withdrawal of the Agreement, and the Parties shall request a Procedural Order setting the Parties' Applications for Adjudication for hearing. Such hearing shall be without prejudice to the position of any Parties, and this Agreement and the Transfer Agreement, any of the terms and conditions of this Agreement or the Transfer Agreement, any communications leading up to

the execution of this Agreement or the Transfer Agreement, and any supporting documents relating thereto shall not be admitted into evidence for any purpose nor used by the Commission in its final consideration of the issues raised in this consolidated Docket. If a Party files an Application for Rehearing before the Commission, Staff shall not be obligated to file any document or take any position regarding the withdrawing Party's Application for Rehearing.

6.6 Appeal of Commission Decision. If a Party's application for rehearing alleges that the Commission has failed to approve all terms of this Agreement without material change, and the application for rehearing is denied, either by Commission Order or by operation of law, and such Party still objects to any modification to the terms of this Agreement made by the Commission, that Party shall timely file an appeal of the Commission's decision pursuant to A.R.S. § 40-254 or § 40-254.01, as appropriate. In the event that the Party does not file such an appeal, it shall be deemed (a) to have accepted any modifications made by the Commission, and (b) to have conclusively and irrefutably accepted that any modifications to the terms of this Agreement were not material and therefore that the Commission's Order adopted the terms of this Agreement without material change.

6.7 Limitations. The terms and provisions of this Agreement apply solely to and are binding only in the context of the provisions and results of this Agreement and neither this Agreement nor any of the positions taken in this Agreement by any of the Parties may be referred to, cited to, or relied upon by any other Party in any fashion as precedent or otherwise in any proceeding before the Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purpose and results of this Agreement.

6.8 Definitive Text. The 'Definitive Text' of this Agreement shall be the text adopted by the Commission in an Order adopting substantially all the terms of this Agreement including all modifications made by the Commission in such an Order.

6.9 Severability. Each of the terms of the Definitive Text of this Agreement is in consideration and support of all other terms. Accordingly, such terms are not severable.

6.10 Support and Defend. The Parties shall make reasonable and good faith efforts necessary to obtain a Commission Order approving this Agreement. The Parties further pledge to support and defend this Agreement before the Commission. If this Agreement is approved, the Parties will support and defend this Agreement before any court or regulatory agency in which it may be at issue.

7. GENERAL.

7.1 This Agreement represents the Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement.

7.2 No Party is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Party shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.

7.3 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control. Nothing contained in this Agreement is intended to interfere with the Commission's authority to exercise any regulatory authority by the issuance of orders, rules or regulations.

7.4 This Agreement may be executed by facsimile or in any number of counterparts; all such counterparts shall be deemed to constitute one and the same instrument and each of the executed counterparts shall be deemed an original hereof. The individuals executing this Agreement represent and warrant that he or she has the full power and authority to execute this Agreement and to create binding obligations of the Parties in accordance with the terms hereof.

7.5 No change, modification, or waiver of any provision of this Agreement shall be valid or binding unless it is in writing, dated after the date hereof, and signed by the Parties intended to be bound and approved by the Commission.

7.6 To the extent permitted by the context in which used, words in the singular number shall include the plural and vice versa; words in the masculine gender shall include the feminine and neuter and vice versa; and references to "persons" or "Parties" in this Agreement shall be deemed to refer to natural persons, corporations, general partnerships, limited partnerships, trusts, and all other entities. All references to "days" shall mean calendar days unless stated otherwise. If the last day of any time period stated herein shall fall on a Saturday, Sunday, or legal holiday in the State of Arizona, then the duration of such time period shall be extended so that it shall end on the next succeeding day which is not a Saturday, Sunday, or legal holiday in the State of Arizona.

7.7 Neither this Agreement nor any of the positions taken in this Agreement by any of the Parties may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except in furtherance of securing the approval and enforcement of this Agreement.

7.8 This Agreement shall not be construed for or against any Party as a result of its participation or the participation of its counsel in the preparation and/or drafting of this Agreement or any exhibits hereto.

7.9 This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective owners, shareholders, directors, members, principals, agents, heirs, assigns and successors-in-interest.

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

EXHIBIT "A"

That portion of Coconino County, Arizona, described as follows, to-wit:

Being within Section 23 and 24, T 30 N, R 2 E, G & S R B & M, Coconino County, Arizona, the coterminous exterior boundaries of the entire composite and consolidated territory lying within the following boundaries: Beginning at a point on the north line of said Section 24, said point of beginning being Corner No. 5 of Homestead Entry Survey No. 401 (hereinafter HES 401); thence S 14° W, 1574.76 feet to Corner No. 6, HES 401; thence S 27°30' W, 1769.46 feet; thence N 68°43' W, 656.70 feet to an easterly line of said HES 401; thence along said easterly line S 47°20' W., 593.73 feet to Corner 6-C, HES 401; thence southerly along the easterly boundary of Grand Canyon National Park Airport property 3061.29 feet to a corner of said airport property; thence S 40°40'07" W, 800 feet to a corner of said airport property; thence S 40°40'07" W, 11,515.33 feet to the most southerly corner of said airport property; thence N 49°19'53" W, 2,400 feet to the most westerly corner of said airport property; thence N 40°40'07" E, 15,993.57 feet to the most northerly corner of said airport property; thence N 49°47' W 471.21 feet to Corner 9, HES 401; thence N 48°20' W, 1198.56 feet to Corner 10, HES 401; thence N 48°20' W 1119.36 feet to Corner 11, HES 401; thence North, 330 feet to Corner 12, HES 401; thence S 58°50' E, 972.84 feet to Corner 1, HES 401; thence S 58°50' E, 1506.12 feet to Corner 2, HES 401; thence North 74°18' E, 1077.12 feet to Corner 3, HES 401; thence N 52°02' E, 2092.86 feet to Corner 4, HES 401; a point on said north line of Section 24; thence along said north section line, N 89°32' E, 458.70 feet to the point of beginning;

Together with MOQUI CAMP, lying within the Northeast Quarter of Section 13, and westerly of State Highway 64, and that portion of Grand Canyon National Park Airport lying within Sections 25 and 26, all in Township 30 North, Range 2 East, G & S R B & M, Coconino County, Arizona.

APPENDIX

Anasazi Water Company LLC

By: *[Signature]*

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: John W. Ruster

Its: President

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: 

Its: BOARD MEMBER

8-12-13

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: Vice President of Squire

Town of Tusayan

By: _____

Its: _____

Approved Town of Tusayan:

Its: General counsel

Anasazi Water Company LLC

By: _____

Its: Manager/Member

Arizona Corporation Commission

Utilities Division

By: _____

Its: Director

Hydro Resources Inc.

By: _____

Its: _____

Tusayan Water Development Association, Inc.

By: _____

Its: _____

Squire Motor Inns, Inc.

By: _____

Its: _____

Town of Tusayan

By: AL M. [Signature]

Its: Vice Mayor

Approved Town of Tusayan:

[Signature]

Its: General Council

Town Attorney

EXHIBIT B

That portion of HES 401 as shown in the Dependent Resurvey officially filed by the BLM in November of 2004 as File No. 1247-B lying Northerly of the Grand Canyon National Park Airport AND the Grand Canyon National Park Airport as Retraced and recorded on August 31, 1987 in Book 6 of Land Surveys, Pages 9-9E of the Official Records of the Coconino County Recorder's Office, said parcel of land is situated Sections 23, 24, 25, 26, 27, 34 and 35 all in Township 30 North, Range 2 East AND Section 3 of Township 29 North, Range 2 East, all of the Gila and Salt River Base and Meridian in the Town of Tusayan, Coconino County, Arizona, and is more particularly described by metes and bounds as follows:

BEGINNING at Corner No. 5 of HES 401, said point lies South 89°32" West a distance of 13.22 Chains (872.5 feet) from the Northeast corner of said Section 24;

THENCE South 13°52'00" West a distance of 1575.42 feet to Corner No. 6 of HES 401;
 THENCE South 27°38'00" West a distance of 1769.46 feet to AP2 of Tract 38 as shown on the plat of HES 401;
 THENCE North 68°50'00" West a distance of 656.70 feet to AP1 of Tract 38;
 THENCE South 47°08'00" West a distance of 615.78 feet to the Northeast corner of the Grand Canyon Park National Airport;

The following courses follow the boundary of said airport;

THENCE South 20°58'11" West a distance of 1046.11 feet to the beginning of a non-tangent curve, concave to the East;
 THENCE Southwesterly along said curve with an arc length of 3061.30 feet, through a central angle of 22°46'34", the radius of said curve is 7701.01 feet, with a chord bearing of South 09°57'48" West and with a chord length of 3041.18 feet;
 THENCE North 88°34'29" East a distance of 100.00 feet to the beginning of a non-tangent curve, concave to the East;
 THENCE Southwesterly along said curve with an arc length of 99.96 feet, through a central angle of 00°45'13", the radius of said curve is 7601.01 feet, with a chord bearing of South 01°48'10" East and with a chord length of 99.96 feet;
 THENCE South 87°49'16" West a distance of 100.00 feet;
 THENCE South 40°44'40" West a distance of 800.00 feet;
 THENCE North 49°15'19" West a distance of 786.92 feet;
 THENCE South 40°44'12" West a distance of 11511.18 feet;
 THENCE North 49°19'15" West a distance of 2395.98 feet;
 THENCE North 40°43'00" East a distance of 15978.99 feet to AP5 of Tract 37 as shown on the plat of HES 401;

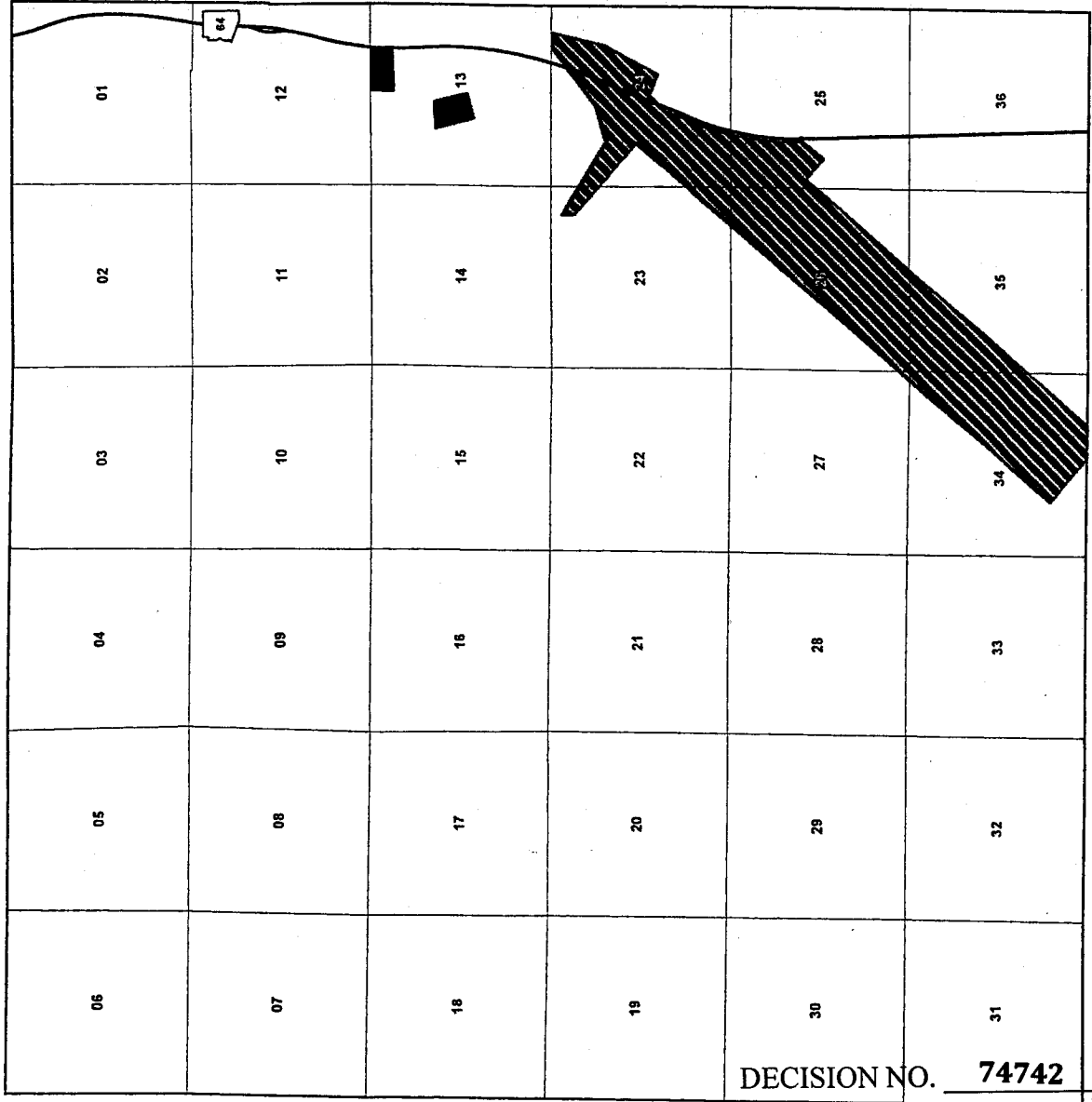
THENCE North 49°46'00" West a distance of 473.88 feet to Corner No. 9 of HES 401;
 THENCE North 47°55'00" West a distance of 1199.88 feet to Corner No. 10 of HES 401;
 THENCE continuing North 47°55'00" West a distance of 1120.02 feet to Corner No. 11 of HES 401;
 THENCE North 00°11'00" West a distance of 330.66 feet to Corner No. 12 of HES 401;

THENCE South 58°55'00" East a distance of 975.48 feet to Corner No. 1 of HES 401;
THENCE South 58°55'00" East a distance of 1503.48 feet to Corner No. 2 of HES 401;
THENCE North 74°18'00" East a distance of 1076.46 feet to Corner No. 3 of HES 401;
THENCE North 52°05'00" East a distance of 2094.84 feet to Corner No. 4 of HES 401;
THENCE North 89°32'00" East a distance of 456.06 feet to the Point of Beginning.

All as shown on the attached Exhibit A-1 which is made a part of this description by this reference.

COCOINNO COUNTY

RANGE 2 East



TOWNSHIP 30 North

W-02350A (2)
Tusayan Water Development Association, Inc.

EXHIBIT C

(2)
Tusayan Water Development Association, Inc.
Docket No. W-02350A-13-0312
Application for Cancellation

(2)
Hydro-Resources, Inc.
Docket No. W-20770A-13-0313
Application for CC&N

DOCKET NO. W-02350A-10-0163, ET AL

Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section/GIS Mapping
602-542-4251



TR30N2E 13 APR 1989

DECISION NO. **74742**

COCOA COUNTY

RANGE 2 East

06	05	04	03	02	01
07	08	09	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

DECISION NO. 74742

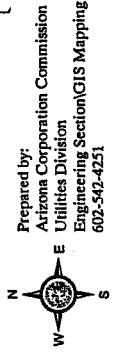
TOWNSHIP 29 North

W-02350A (2)
Tusayan Water Development Association, Inc.

(2)
Tusayan Water Development Association, Inc.
Docket No. W-02350A-13-0312
Application for Cancellation

(2)
Hydro-Resources, Inc.
Docket No. W-20770A-13-0313
Application for CC&N

DOCKET NO. W-02350A-10-0163, ET AL



COCONINO COUNTY

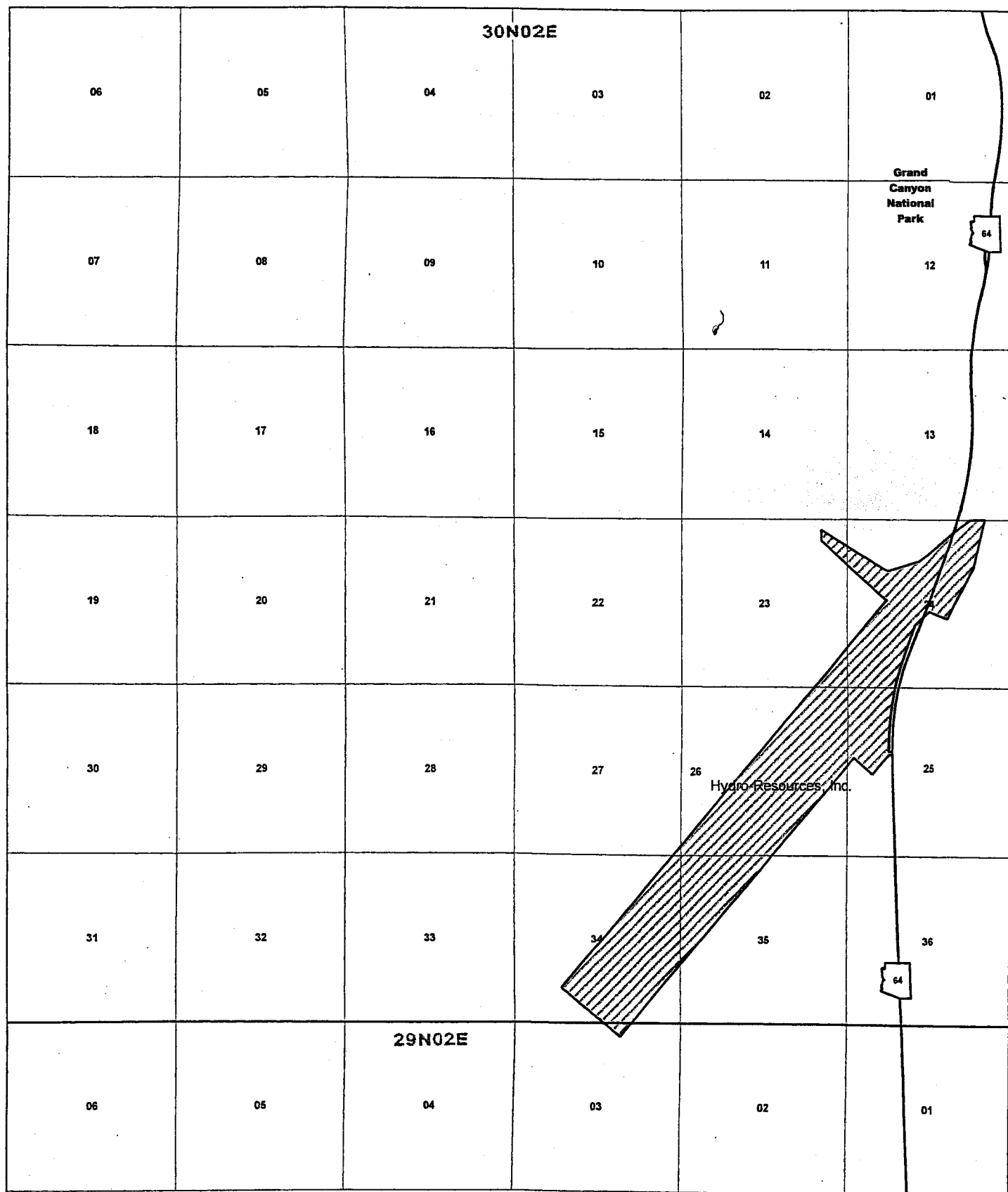


EXHIBIT D

Hydro Resources, Inc.
REPRESENTATIVE RATE SCHEDULES
STATEMENT OF CHARGES

Exhibit
Schedule 5
Page 2
REVISED

LINE
NO.

1	A. Establishment of service per R14-2-403.D	Proposed	\$ 25.00
2			
3	B. Re-establishment of service per 14-2-403.D	(a)	
4			
5	C. Reconnection of service per R14-2-403.D.1	\$	25.00
6			
7	D. Charge for moving meter at customer request per		
8	R14-2-405.B.5	Cost (b)	
9			
10	E. After hours service charge per R14-2-403.D	\$	35.00
11			
12	F. Minimum Deposit per R-14-2-403.B		
13			
14	G. Meter Test per R14-2-409.D.5	\$	40.00 (c)
15			
16	H. Meter Reread per R14-2-408	\$	15.00 (c)
17			
18	I. Charge for NSF Check per R14-2-409.F.1	\$	25.00
19			
20	J. Late payment charge for delinquent bills		
21	as defined in R14-2-409.C.1		1.50%
22			
23	K. Deferred Payment Finance Charge, R14-2-409.G		1.50%
24			
25	L. Service Line and Meter Installation per R14-12-405.B		
26	<u>Meter Size</u>	<u>Service Line</u>	<u>Meter Installation</u> <u>Total</u>
27	5/8 x 3/4 inch	\$ 385.00	\$ 135.00 \$ 520.00
28	3/4 inch	415.00	205.00 620.00
29	1 inch	465.00	265.00 730.00
30	1 1/2 inch	520.00	475.00 995.00
31	2 Inch - Turbo	800.00	995.00 1,795.00
32	2 inch - Compound	800.00	1,840.00 2,640.00
33	3 inch - Turbo	1,015.00	1,620.00 2,635.00
34	3 inch - Compound	1,135.00	2,495.00 3,630.00
35	4 Inch - Turbo	1,430.00	2,570.00 4,000.00
36	4 inch - Compound	1,610.00	3,545.00 5,155.00
37	6 Inch - Turbo	2,150.00	4,925.00 7,075.00
38	6 inch - Compound	2,270.00	6,820.00 9,090.00
39	8 Inch and Larger	Cost (b)	Cost (b) Cost (b)
40			
41	M. Main Extension and additional facilities agreements,		
42	per R14-2-406.B	Cost (b)	
43			
44	N. Company may collect from its customers a proportionate share of any privilege, sales or use tax. (d)		
45			
46	(a) Monthly minimum times months off the system		
47	(b) Cost to include parts, labor, overhead, and all applicable taxes, including income tax.		
48	(c) If meter is reading correct per rule.		
49	(d) per R14-2-409.D.5		

RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. AAC R14-2-401 Through AAC R14-2-411 will be controlling of Company procedures, unless specific Commission Orders provide otherwise.